

UMB FINANCIAL CORP  
Form 10-Q  
August 02, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(MARK ONE)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2012

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-4887

**UMB FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

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**Missouri**  
(State or other jurisdiction of

**43-0903811**  
(I.R.S. Employer

incorporation or organization)

Identification Number)

**1010 Grand Boulevard, Kansas City, Missouri**  
(Address of principal executive offices)

**64106**  
(ZIP Code)

(Registrant's telephone number, including area code): **(816) 860-7000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

As of July 26, 2012, UMB Financial Corporation had 40,578,007 shares of common stock outstanding.

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UMB FINANCIAL CORPORATION

FORM 10-Q

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**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****UMB FINANCIAL CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS***(unaudited, dollars in thousands, except share and per share data)*

|  | June 30,<br>2012 | December 31,<br>2011 |
|--|------------------|----------------------|
| <b><u>ASSETS</u></b>   |                  |                      |
| Loans:   | \$ 5,315,609     | \$ 4,960,343         |
| Allowance for loan losses  | (72,652)         | (72,017)             |
| Net loans  | 5,242,957        | 4,888,326            |
| Loans held for sale  | 11,027           | 10,215               |
| Securities:  |                  |                      |
| Available for sale   | 6,329,724        | 6,107,882            |
| Held to maturity (market value of \$110,194 and \$102,287, respectively) | 96,250           | 89,246               |
| Trading  | 56,844           | 58,142               |
| Federal Reserve Bank stock and other                                     | 21,705           | 22,212               |
| Total investment securities  | 6,504,523        | 6,277,482            |
| Federal funds sold and securities purchased under agreements to resell   | 30,733           | 66,078               |
| Interest-bearing due from banks  | 295,499          | 1,164,007            |
| Cash and due from banks  | 402,893          | 446,580              |
| Bank premises and equipment, net   | 234,754          | 227,936              |
| Accrued income   | 71,396           | 75,997               |
| Goodwill   | 211,114          | 211,114              |
| Other intangibles  | 76,604           | 84,331               |
| Other assets   | 101,162          | 89,332               |
| Total assets   | \$ 13,182,662    | \$ 13,541,398        |
| <b><u>LIABILITIES</u></b>  |                  |                      |
| Deposits:  |                  |                      |
| Noninterest-bearing demand   | \$ 4,217,487     | \$ 3,941,372         |
| Interest-bearing demand and savings                                      | 4,920,957        | 4,680,125            |
| Time deposits under \$100,000  | 575,714          | 615,475              |
| Time deposits of \$100,000 or more                                       | 615,692          | 932,939              |
| Total deposits   | 10,329,850       | 10,169,911           |
| Federal funds purchased and repurchase agreements                        | 1,400,566        | 1,950,827            |
| Short-term debt  | 10,000           | 12,000               |
| Long-term debt   | 5,260            | 6,529                |
| Accrued expenses and taxes   | 169,812          | 186,380              |
| Other liabilities  | 15,176           | 24,619               |
| Total liabilities  | 11,930,664       | 12,350,266           |
| <b><u>SHAREHOLDERS EQUITY</u></b>  |                  |                      |

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|  |               |               |
|--|---------------|---------------|
| Common stock, \$1.00 par value; 80,000,000 shares authorized; 55,056,730 shares issued; and 40,529,293 and 40,426,342 shares outstanding, respectively | 55,057        | 55,057        |
| Capital surplus  | 726,708       | 723,299       |
| Retained earnings  | 756,835       | 697,923       |
| Accumulated other comprehensive income   | 81,244        | 81,099        |
| Treasury stock, 14,527,437 and 14,630,388 shares, at cost, respectively  | (367,846)     | (366,246)     |
| Total shareholders' equity   | 1,251,998     | 1,191,132     |
| Total liabilities and shareholders' equity   | \$ 13,182,662 | \$ 13,541,398 |

See Notes to Condensed Consolidated Financial Statements.

## UMB FINANCIAL CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

*(unaudited, dollars in thousands, except share and per share data)*

|   | Three Months Ended June 30, |           | Six Months Ended June 30, |            |
|---|-----------------------------|-----------|---------------------------|------------|
|   | 2012                        | 2011      | 2012                      | 2011       |
| <b><u>INTEREST INCOME</u></b>                       |                             |           |                           |            |
| Loans   | \$ 54,000                   | \$ 55,106 | \$ 108,055                | \$ 109,095 |
| Securities:   |                             |           |                           |            |
| Taxable interest                                    | 21,178                      | 22,077    | 41,307                    | 44,385     |
| Tax-exempt interest                                 | 9,468                       | 8,282     | 18,843                    | 16,520     |
| Total securities income                             | 30,646                      | 30,359    | 60,150                    | 60,905     |
| Federal funds and resell agreements                 | 25                          | 13        | 41                        | 28         |
| Interest-bearing due from banks                     | 362                         | 843       | 1,197                     | 2,005      |
| Trading securities                                  | 317                         | 230       | 640                       | 491        |
| Total interest income                               | 85,350                      | 86,551    | 170,083                   | 172,524    |
| <b><u>INTEREST EXPENSE</u></b>                      |                             |           |                           |            |
| Deposits  | 4,376                       | 6,163     | 9,364                     | 12,829     |
| Federal funds and repurchase agreements             | 508                         | 398       | 948                       | 1,066      |
| Other   | 93                          | 72        | 309                       | 263        |
| Total interest expense                              | 4,977                       | 6,633     | 10,621                    | 14,158     |
| Net interest income                                 | 80,373                      | 79,918    | 159,462                   | 158,366    |
| Provision for loan losses                           | 4,500                       | 5,600     | 9,000                     | 12,700     |
| Net interest income after provision for loan losses | 75,873                      | 74,318    | 150,462                   | 145,666    |
| <b><u>NONINTEREST INCOME</u></b>                    |                             |           |                           |            |
| Trust and securities processing                     | 55,755                      | 53,635    | 110,465                   | 105,363    |
| Trading and investment banking                      | 7,140                       | 6,478     | 16,818                    | 15,497     |
| Service charges on deposits                         | 19,009                      | 18,181    | 39,020                    | 36,789     |
| Insurance fees and commissions                      | 913                         | 1,165     | 1,922                     | 2,368      |
| Brokerage fees                                      | 2,705                       | 2,573     | 5,219                     | 4,914      |
| Bankcard fees                                       | 16,830                      | 16,545    | 31,565                    | 30,987     |
| Gain on sales of securities available for sale, net | 3,222                       | 6,023     | 19,763                    | 13,480     |
| Other   | 4,652                       | 3,256     | 17,755                    | 6,208      |
| Total noninterest income                            | 110,226                     | 107,856   | 242,527                   | 215,606    |
| <b><u>NONINTEREST EXPENSE</u></b>                   |                             |           |                           |            |
| Salaries and employee benefits                      | 78,001                      | 72,922    | 157,915                   | 145,821    |
| Occupancy, net                                      | 9,211                       | 9,579     | 18,489                    | 19,184     |
| Equipment   | 11,004                      | 10,774    | 21,669                    | 21,710     |
| Supplies and services                               | 5,218                       | 5,577     | 10,261                    | 11,157     |
| Marketing and business development                  | 5,986                       | 5,158     | 10,246                    | 9,280      |
| Processing fees                                     | 12,593                      | 13,319    | 25,409                    | 25,492     |
| Legal and consulting                                | 4,012                       | 4,075     | 7,527                     | 6,692      |
| Bankcard  | 4,630                       | 4,219     | 8,872                     | 8,072      |
| Amortization of intangible assets                   | 3,733                       | 4,159     | 7,585                     | 8,165      |

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|                                    |                  |                  |                  |                  |
|------------------------------------|------------------|------------------|------------------|------------------|
| Regulatory fees                    | 2,314            | 2,394            | 4,733            | 6,111            |
| Class action litigation settlement |                  | 7,800            |                  | 7,800            |
| Other                              | 7,984            | 5,605            | 13,884           | 11,613           |
| Total noninterest expense          | 144,686          | 145,581          | 286,590          | 281,097          |
| Income before income taxes         | 41,413           | 36,593           | 106,399          | 80,175           |
| Income tax provision               | 12,248           | 10,272           | 30,867           | 22,984           |
| <b>NET INCOME</b>                  | <b>\$ 29,165</b> | <b>\$ 26,321</b> | <b>\$ 75,532</b> | <b>\$ 57,191</b> |

**PER SHARE DATA**

|                                     |            |            |            |            |
|-------------------------------------|------------|------------|------------|------------|
| Net income basic                    | \$ 0.73    | \$ 0.66    | \$ 1.89    | \$ 1.43    |
| Net income diluted                  | 0.72       | 0.65       | 1.87       | 1.42       |
| Dividends                           | 0.205      | 0.195      | 0.410      | 0.390      |
| Weighted average shares outstanding | 40,034,649 | 40,080,402 | 40,030,052 | 40,075,428 |

See Notes to Condensed Consolidated Financial Statements.

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**UMB FINANCIAL CORPORATION**
**CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME***(unaudited, dollars in thousands)*

|   | <b>Three Months Ended June 30,</b> |               | <b>Six Months Ended June 30,</b> |               |
|---|------------------------------------|---------------|----------------------------------|---------------|
|   | <b>2012</b>                        | <b>2011</b>   | <b>2012</b>                      | <b>2011</b>   |
| Net Income  | \$ 29,165                          | \$ 26,321     | \$ 75,532                        | \$ 57,191     |
| Other comprehensive income, net of tax:                             |                                    |               |                                  |               |
| Unrealized gains on securities:                                     |                                    |               |                                  |               |
| Change in unrealized holding gains, net                             | 30,771                             | 62,003        | 20,155                           | 60,513        |
| Less: Reclassifications adjustment for gains included in net income | (3,222)                            | (6,023)       | (19,763)                         | (13,480)      |
| Change in unrealized gains on securities during the period          | 27,549                             | 55,980        | 392                              | 47,033        |
| Income tax expense  | (10,173)                           | (20,679)      | (247)                            | (17,387)      |
| Other comprehensive income  | 17,376                             | 35,301        | 145                              | 29,646        |
| <b>Comprehensive income</b>   | <b>\$ 46,541</b>                   | <b>61,622</b> | <b>\$ 75,677</b>                 | <b>86,837</b> |

See Notes to Condensed Consolidated Financial Statements.



## UMB FINANCIAL CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

*(unaudited, dollars in thousands, except per share data)*

|  | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock | Total        |
|--|-----------------|--------------------|----------------------|---|-------------------|--------------|
| Balance January 1, 2011                              | \$ 55,057       | \$ 718,306         | \$ 623,415           | \$ 25,465                                       | \$ (361,383)      | \$ 1,060,860 |
| Total comprehensive income                           |                 |                    | 57,191               | 29,646  |                   | 86,837       |
| Cash dividends (\$0.39 per share)                    |                 |                    | (15,801)             |   |                   | (15,801)     |
| Purchase of treasury stock                           |                 |                    |                      |   | (3,382)           | (3,382)      |
| Issuance of equity awards                            |                 | (1,918)            |                      |   | 2,157             | 239          |
| Recognition of equity based compensation             |                 | 3,262              |                      |   |                   | 3,262        |
| Net tax benefit related to equity compensation plans |                 | 97                 |                      |   |                   | 97           |
| Sale of treasury stock                               |                 | 115                |                      |   | 116               | 231          |
| Exercise of stock options                            |                 | 128                |                      |   | 485               | 613          |
| Balance June 30, 2011                                | \$ 55,057       | \$ 719,990         | \$ 664,805           | \$ 55,111                                       | \$ (362,007)      | \$ 1,132,956 |
| Balance January 1, 2012                              | \$ 55,057       | \$ 723,299         | \$ 697,923           | \$ 81,099                                       | \$ (366,246)      | \$ 1,191,132 |
| Total comprehensive income                           |                 |                    | 75,532               | 145   |                   | 75,677       |
| Cash dividends (\$0.41 per share)                    |                 |                    | (16,620)             |   |                   | (16,620)     |
| Purchase of treasury stock                           |                 |                    |                      |   | (5,284)           | (5,284)      |
| Issuance of equity awards                            |                 | (1,698)            |                      |   | 1,942             | 244          |
| Recognition of equity based compensation             |                 | 3,565              |                      |   |                   | 3,565        |
| Net tax benefit related to equity compensation plans |                 | 164                |                      |   |                   | 164          |
| Sale of treasury stock                               |                 | 234                |                      |   | 189               | 423          |
| Exercise of stock options                            |                 | 1,144              |                      |   | 1,553             | 2,697        |
| Balance June 30, 2012                                | \$ 55,057       | \$ 726,708         | \$ 756,835           | \$ 81,244                                       | \$ (367,846)      | \$ 1,251,998 |

See Notes to Condensed Consolidated Financial Statements.

## UMB FINANCIAL CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

*(unaudited, dollars in thousands)*

|   | Six Months Ended<br>June 30, |             |
|---|------------------------------|-------------|
|   | 2012                         | 2011        |
| <b>Operating Activities</b>   |                              |             |
| Net Income  | \$ 75,532                    | \$ 57,191   |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                              |             |
| Provision for loan losses   | 9,000                        | 12,700      |
| Depreciation and amortization   | 20,505                       | 22,401      |
| Deferred income tax expense (benefit)   | 876                          | (2,458)     |
| Net decrease (increase) in trading securities   | 1,298                        | (800)       |
| Gains on sales of securities available for sale, net  | (19,763)                     | (13,480)    |
| Gains on sales of assets  | (655)                        | (1)         |
| Amortization of securities premiums, net of discount accretion                              | 24,866                       | 20,622      |
| Originations of loans held for sale   | (107,658)                    | (94,110)    |
| Net gains on sales of loans held for sale   | (919)                        | (1,051)     |
| Proceeds from sales of loans held for sale  | 107,765                      | 102,994     |
| Issuance of equity awards   | 244                          | 239         |
| Equity based compensation   | 3,565                        | 3,262       |
| Changes in:   |                              |             |
| Accrued income  | 4,601                        | (1,476)     |
| Accrued expenses and taxes  | (10,040)                     | 5,673       |
| Other assets and liabilities, net   | (14,106)                     | 7,025       |
| Net cash provided by operating activities   | 95,111                       | 118,731     |
| <b>Investing Activities</b>   |                              |             |
| Proceeds from maturities of securities held to maturity                                     | 3,930                        | 5,081       |
| Proceeds from sales of securities available for sale  | 974,581                      | 884,275     |
| Proceeds from maturities of securities available for sale                                   | 826,048                      | 928,392     |
| Purchases of securities held to maturity  | (10,849)                     | (10,793)    |
| Purchases of securities available for sale  | (2,032,803)                  | (1,688,797) |
| Net increase in loans   | (364,749)                    | (166,027)   |
| Net decrease in fed funds sold and resell agreements  | 35,345                       | 190,690     |
| Net decrease in interest-bearing balances due from other financial institutions             | 94,023                       | 38,122      |
| Purchases of bank premises and equipment  | (20,303)                     | (15,210)    |
| Net cash received (paid) for acquisitions   | 701                          | (8,000)     |
| Proceeds from sales of bank premises and equipment  | 661                          | 43          |
| Net cash (used in) provided by investing activities   | (493,415)                    | 157,776     |
| <b>Financing Activities</b>   |                              |             |
| Net increase in demand and savings deposits   | 516,947                      | 1,179,954   |
| Net decrease in time deposits   | (357,008)                    | (294,894)   |
| Net decrease in fed funds purchased and repurchase agreements                               | (550,261)                    | (578,405)   |
| Net decrease in short-term debt   | (2,000)                      | (10,296)    |
| Repayment of long-term debt   | (1,269)                      | (2,539)     |
| Payment of contingent consideration on acquisitions   | (7,651)                      |             |
| Cash dividends paid   | (16,626)                     | (15,654)    |
| Net tax benefit related to equity compensation plans  | 164                          | 97          |
| Proceeds from exercise of stock options and sales of treasury shares                        | 3,120                        | 844         |

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|   |            |              |
|---|------------|--------------|
| Purchases of treasury stock                               | (5,284)    | (3,382)      |
| Net cash (used in) provided by financing activities       | (419,868)  | 275,725      |
| (Decrease) increase in cash and due from banks            | (818,172)  | 552,232      |
| Cash and due from banks at beginning of period            | 1,459,631  | 1,033,617    |
| Cash and due from banks at end of period                  | \$ 641,459 | \$ 1,585,849 |
| Supplemental Disclosures:                                 |            |              |
| Income taxes paid   | \$ 23,908  | \$ 13,627    |
| Total interest paid                                       | \$ 11,588  | \$ 15,256    |
| See Notes to Condensed Consolidated Financial Statements. |            |              |

**UMB FINANCIAL CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)**

**1. Financial Statement Presentation**

The condensed consolidated financial statements include the accounts of UMB Financial Corporation and its subsidiaries (collectively, the Company) after elimination of all significant intercompany transactions. In the opinion of management of the Company, all adjustments, which were of a normal recurring nature and necessary for a fair presentation of the financial position and results of operations, have been made. The results of operations and cash flows for the interim periods presented may not be indicative of the results of the full year. The financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

**2. Summary of Accounting Policies**

The Company is a multi-bank financial holding company, which offers a wide range of banking and other financial services to its customers through its branches and offices in the states of Missouri, Kansas, Colorado, Illinois, Oklahoma, Arizona, Nebraska, Pennsylvania, South Dakota, Indiana, Wisconsin, New Jersey, and Massachusetts. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also impact reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A summary of the significant accounting policies to assist the reader in understanding the financial presentation is listed in the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

**Interest-bearing Due From Banks**

Amounts due from the Federal Reserve Bank which are interest-bearing for all periods presented, and amounts due from certificates of deposits held at other financial institutions are included in interest-bearing due from banks. The amount due from the Federal Reserve Bank totaled \$238.6 million and \$1,238.5 million at June 30, 2012 and June 30, 2011, respectively, and is considered cash and cash equivalents. The amounts due from certificates of deposit totaled \$56.9 million and \$133.0 million at June 30, 2012 and June 30, 2011, respectively.

*This table provides a summary of cash and due from banks as presented on the Consolidated Statement of Cash Flows as of June 30, 2012 and June 30, 2011 (in thousands):*

|  | June 30,   |              |
|--|------------|--------------|
|  | 2012       | 2011         |
| Due from the Federal Reserve             | \$ 238,566 | \$ 1,238,480 |
| Cash and due from banks                  | 402,893    | 347,369      |
| Cash and due from banks at end of period | \$ 641,459 | \$ 1,585,849 |

**Per Share Data**

Basic income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted quarterly per share data includes the dilutive effect of 442,499 and 323,509 shares issuable upon the exercise of options granted by the Company and outstanding at June 30, 2012 and 2011, respectively. Diluted year-to-date income per share includes the dilutive effect of 397,060 and 318,004 shares issuable upon the exercise of stock options granted by the Company and outstanding at June 30, 2012 and 2011, respectively.

Options issued under employee benefit plans to purchase 521,705 shares of common stock were outstanding at June 30, 2012, but were not included in the computation of year-to-date diluted EPS because the options were anti-dilutive. Options issued under employee benefit plans to purchase 765,818 shares of common stock were outstanding at June 30, 2011, but were not included in the computation of quarterly diluted EPS because the options were anti-dilutive. Options issued under employee benefit plans to purchase 874,914 shares of common stock were outstanding at June 30, 2011, but were not included in the computation of year-to-date diluted EPS because the options were anti-dilutive.



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UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

**3. New Accounting Pronouncements**

**Fair Value Measurements and Disclosure Requirements** In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), which amends the FASB Standards Codification to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The Company adopted this standard for the quarter ended March 31, 2012 which resulted in a \$6.9 million (\$4.7 million, net of tax) reduction of the contingent consideration liabilities and a corresponding increase to other non-interest income due to the Company changing its fair value methodology. The adoption of this accounting pronouncement also resulted in additional fair value financial statement disclosures.

**Presentation of Comprehensive Income** In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income: Presentation of Comprehensive Income (ASU 2011-05), which amends the FASB Standards Codification to allow the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. These amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 was effective for the Company for the period ended March 31, 2012; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU No. 2011-12 (ASU 2011-12) Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12. The Company adopted ASU 2011-05 for the quarter ended March 31, 2012 with no material impact on its financial statements except for a change in presentation.

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UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

**4. Loans and Allowance for Loan Losses**

**Loan Origination/Risk Management**

The Company has certain lending policies and procedures in place that are designed to minimize the level of risk within the loan portfolio. Diversification of the loan portfolio manages the risk associated with fluctuations in economic conditions. The Company maintains an independent loan review department that reviews and validates the credit risk program on a continual basis. Management regularly evaluates the results of the loan reviews. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Commercial loans are made based on the identified cash flows of the borrower and on the underlying collateral provided by the borrower. The cash flows of the borrower, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts from its customers. Commercial credit cards are generally unsecured and are underwritten with criteria similar to commercial loans including an analysis of the borrower's cash flow, available business capital, and overall credit-worthiness of the borrower.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. The Company requires an appraisal of the collateral be made at origination, on an as-needed basis, in conformity with current market conditions and regulatory requirements. The underwriting standards address both owner and non-owner occupied real estate.

Construction loans are underwritten using feasibility studies, independent appraisal reviews, sensitivity analysis or absorption and lease rates and financial analysis of the developers and property owners. Construction loans are based upon estimates of costs and value associated with the complete project. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term borrowers, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their repayment being sensitive to interest rate changes, governmental regulation of real property, economic conditions and the availability of long-term financing.

Underwriting standards for residential real estate and home equity loans are based on the borrower's loan-to-value percentage, collection remedies, and overall credit history.

Consumer loans are underwritten based on the borrower's repayment ability. The Company monitors delinquencies on all of its consumer loans and leases and periodically reviews the distribution of FICO scores relative to historical periods to monitor credit risk on its credit card loans. The underwriting and review practices, combined with the relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Consumer loans and leases that are 90 days past due or more are considered non-performing.

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

This table provides a summary of loan classes and an aging of past due loans at June 30, 2012 and December 31, 2011 (*in thousands*):

|                          | June 30, 2012                             |  |                          |                      |                     |                     |
|--------------------------|---|--|--------------------------|----------------------|---------------------|---------------------|
|                          | 30-89<br>Days Past<br>Due and<br>Accruing | Greater<br>than 90<br>Days Past<br>Due and<br>Accruing | Non-<br>Accrual<br>Loans | Total<br>Past<br>Due | Current             | Total<br>Loans      |
| Commercial:              |   |  |                          |                      |                     |                     |
| Commercial               | \$ 4,622                                  | \$ 877   | \$ 14,115                | \$ 19,614            | \$ 2,616,327        | \$ 2,635,941        |
| Commercial credit card   | 428                                       | 105  |                          | 533                  | 103,938             | 104,471             |
| Real estate:             |   |  |                          |                      |                     |                     |
| Real estate construction | 435                                       | 651  | 655                      | 1,741                | 79,948              | 81,689              |
| Real estate commercial   | 6,032                                     | 1,110  | 8,574                    | 15,716               | 1,336,696           | 1,352,412           |
| Real estate residential  | 2,121                                     | 139  | 1,819                    | 4,079                | 190,448             | 194,527             |
| Real estate HELOC        | 877                                       | 113  | 463                      | 1,453                | 557,275             | 558,728             |
| Consumer:                |   |  |                          |                      |                     |                     |
| Consumer credit card     | 2,752                                     | 2,371  | 3,632                    | 8,755                | 308,169             | 316,924             |
| Consumer other           | 2,527                                     | 832  | 1,384                    | 4,743                | 48,802              | 53,545              |
| Leases                   | 204                                       |  |                          | 204                  | 17,168              | 17,372              |
| <b>Total loans</b>       | <b>\$ 19,998</b>                          | <b>\$ 6,198</b>  | <b>\$ 30,642</b>         | <b>\$ 56,838</b>     | <b>\$ 5,258,771</b> | <b>\$ 5,315,609</b> |

|                          | December 31, 2011                         |  |                          |                      |                     |                     |
|--------------------------|---|--|--------------------------|----------------------|---------------------|---------------------|
|                          | 30-89<br>Days Past<br>Due and<br>Accruing | Greater<br>than 90<br>Days Past<br>Due and<br>Accruing | Non-<br>Accrual<br>Loans | Total<br>Past<br>Due | Current             | Total<br>Loans      |
| Commercial:              |   |  |                          |                      |                     |                     |
| Commercial               | \$ 2,986                                  | \$ 767   | \$ 9,234                 | \$ 12,987            | \$ 2,221,830        | \$ 2,234,817        |
| Commercial credit card   | 896                                       | 284  |                          | 1,180                | 94,159              | 95,339              |
| Real estate:             |   |  |                          |                      |                     |                     |
| Real estate construction | 430                                       |  | 642                      | 1,072                | 83,518              | 84,590              |
| Real estate commercial   | 2,368                                     | 313  | 7,218                    | 9,899                | 1,384,656           | 1,394,555           |
| Real estate residential  | 1,713                                     | 247  | 1,660                    | 3,620                | 182,266             | 185,886             |
| Real estate HELOC        | 819                                       | 41   | 696                      | 1,556                | 531,476             | 533,032             |
| Consumer:                |   |  |                          |                      |                     |                     |
| Consumer credit card     | 2,858                                     | 3,394  | 4,638                    | 10,890               | 322,756             | 333,646             |
| Consumer other           | 1,260                                     | 952  | 1,493                    | 3,705                | 90,939              | 94,644              |
| Leases                   |   |  |                          |                      | 3,834               | 3,834               |
| <b>Total loans</b>       | <b>\$ 13,330</b>                          | <b>\$ 5,998</b>  | <b>\$ 25,581</b>         | <b>\$ 44,909</b>     | <b>\$ 4,915,434</b> | <b>\$ 4,960,343</b> |

The Company sold \$107.8 million and \$103.0 million of residential real estate and student loans during the six month periods ended June 30, 2012 and June 30, 2011, respectively.



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The Company has ceased the recognition of interest on loans with a carrying value of \$30.6 million and \$25.6 million at June 30, 2012 and December 31, 2011, respectively. Restructured loans totaled \$8.3 million and \$6.0 million at June 30, 2012 and December 31, 2011, respectively. Loans 90 days past due and still accruing interest amounted to \$6.2 million and \$6.0 million at June 30, 2012 and December 31, 2011, respectively. There was an insignificant amount of interest recognized on impaired loans during 2012 and 2011.

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UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

**Credit Quality Indicators**

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to the risk grading of specified classes of loans, net charge-offs, non-performing loans, and general economic conditions.

The Company utilizes a risk grading matrix to assign a rating to each of its commercial, commercial real estate, and construction real estate loans. The loan rankings are summarized into the following categories: Non-watch list, Watch, Special Mention, and Substandard. Any loan not classified in one of the categories described below is considered to be a Non-watch list loan. A description of the general characteristics of the loan ranking categories is as follows:

**Watch** This rating represents credit exposure that presents higher than average risk and warrants greater than routine attention by Company personnel due to conditions affecting the borrower, the borrower's industry or the economic environment. These conditions have resulted in some degree of uncertainty that results in higher than average credit risk.

**Special Mention** This rating reflects a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the institution's credit position at some future date. The rating is not adversely classified and does not expose an institution to sufficient risk to warrant adverse classification.

**Substandard** This rating represents an asset inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans in this category are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. This category may include loans where the collection of full principal is doubtful or remote.

All other classes of loans are generally evaluated and monitored based on payment activity. Non-performing loans include restructured loans, which are on non-accrual, and all other non-accrual loans.

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

This table provides an analysis of the credit risk profile of each loan class at June 30, 2012 and December 31, 2011 (*in thousands*):

## Credit Exposure

## Credit Risk Profile by Risk Rating

|                 | Commercial       |                      | Real estate- construction |                      |
|-----------------|------------------|----------------------|---------------------------|----------------------|
|                 | June 30,<br>2012 | December 31,<br>2011 | June 30,<br>2012          | December 31,<br>2011 |
| Non-watch list  | \$ 2,473,132     | \$ 2,064,658         | \$ 78,964                 | \$ 83,100            |
| Watch           | 85,969           | 100,499              | 362                       | 355                  |
| Special Mention | 20,839           | 16,688               |                           |                      |
| Substandard     | 56,001           | 52,972               | 2,363                     | 1,135                |
| Total           | \$ 2,635,941     | \$ 2,234,817         | \$ 81,689                 | \$ 84,590            |

|                 | Real estate - commercial |                      |
|-----------------|--------------------------|----------------------|
|                 | June 30,<br>2012         | December 31,<br>2011 |
| Non-watch list  | \$ 1,227,429             | \$ 1,275,280         |
| Watch           | 49,825                   | 27,777               |
| Special Mention | 9,739                    | 35,019               |
| Substandard     | 65,419                   | 56,479               |
| Total           | \$ 1,352,412             | \$ 1,394,555         |

## Credit Exposure

## Credit Risk Profile Based on Payment Activity

|                | Commercial       | credit card          | Real estate- residential |                         |
|----------------|------------------|----------------------|--------------------------|-------------------------|
|                | June 30,<br>2012 | December 31,<br>2011 | June 30,<br>2012         | December<br>31,<br>2011 |
| Performing     | \$ 104,471       | \$ 95,339            | \$ 192,708               | \$ 184,226              |
| Non-performing |                  |                      | 1,819                    | 1,660                   |
| Total          | \$ 104,471       | \$ 95,339            | \$ 194,527               | \$ 185,886              |

|  | Real estate - HELOC |                      | Consumer         | credit card             |
|--|---------------------|----------------------|------------------|-------------------------|
|  | June 30,<br>2012    | December 31,<br>2011 | June 30,<br>2012 | December<br>31,<br>2011 |

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|                |                   |                   |                   |                   |
|----------------|-------------------|-------------------|-------------------|-------------------|
| Performing     | \$ 558,265        | \$ 532,336        | \$ 313,292        | \$ 329,008        |
| Non-performing | 463               | 696               | 3,632             | 4,638             |
| <b>Total</b>   | <b>\$ 558,728</b> | <b>\$ 533,032</b> | <b>\$ 316,924</b> | <b>\$ 333,646</b> |

|                | Consumer - other |                      | Leases           |                         |
|----------------|------------------|----------------------|------------------|-------------------------|
|                | June 30,<br>2012 | December 31,<br>2011 | June 30,<br>2012 | December<br>31,<br>2011 |
| Performing     | \$ 52,161        | \$ 93,151            | \$ 17,372        | \$ 3,834                |
| Non-performing | 1,384            | 1,493                |                  |                         |
| <b>Total</b>   | <b>\$ 53,545</b> | <b>\$ 94,644</b>     | <b>\$ 17,372</b> | <b>\$ 3,834</b>         |

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UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

**Allowance for Loan Losses**

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's judgment of losses within the Company's loan portfolio as of the balance sheet date. The allowance is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. Accordingly, the methodology is based on historical loss trends. The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. The provision for possible loan losses reflects loan quality trends, including the levels of and trends related to non-accrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors.

The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific loans; however, the entire allowance is available for any loan that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including, among other things, the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Company's allowance for loan losses consists of specific valuation allowances and general valuation allowances based on historical loan loss experience for similar loans with similar characteristics and trends, general economic conditions and other qualitative risk factors both internal and external to the Company.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of problem loans. Loans are classified based on an internal risk grading process that evaluates the obligor's ability to repay, the underlying collateral, if any, and the economic environment and industry in which the borrower operates. When a loan is considered impaired, the loan is analyzed to determine the need, if any, to specifically allocate a portion of the allowance for loan losses to the loan. Specific valuation allowances are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk ranking of the loan and economic conditions affecting the borrower's industry.

General valuation allowances are calculated based on the historical loss experience of specific types of loans including an evaluation of the time span and volume of the actual charge-off. The Company calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of actual charge-offs experienced to the total population of loans in the pool. The historical loss ratios are updated based on actual charge-off experience. A valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio, time span to charge-off, and the total dollar amount of the loans in the pool. The Company's pools of similar loans include similarly risk-graded groups of commercial loans, commercial real estate loans, commercial credit card, home equity loans, consumer real estate loans and consumer and other loans. The Company also considers a loan migration analysis for criticized loans. This analysis includes an assessment of the probability that a loan will move to a loss position based on its criticized category. In addition, a portion of the allowance is determined by a review of qualitative factors by Management including external factors such as legal and regulatory requirements, competition, unemployment, and other economic and business conditions. The qualitative review also includes an assessment of internal factors such as changes in lending policies and procedures, quality of Company's loan review system, experience of management and staff, and credit concentrations.

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

## ALLOWANCE FOR LOAN LOSSES AND RECORDED INVESTMENT IN LOANS

This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2012 (in thousands):

|   | Three Months Ended June 30, 2012 |              |            |           | Total        |
|---|----------------------------------|--------------|------------|-----------|--------------|
|   | Commercial                       | Real estate  | Consumer   | Leases    |              |
| <b>Allowance for loan losses:</b>                               |                                  |              |            |           |              |
| Beginning balance   | \$ 37,381                        | \$ 23,236    | \$ 12,848  | \$ 21     | \$ 73,486    |
| Charge-offs   | (2,968)                          | (69)         | (3,098)    |           | (6,135)      |
| Recoveries  | 12                               | 3            | 786        |           | 801          |
| Provision   | 3,517                            | (510)        | 1,465      | 28        | 4,500        |
| Ending Balance  | \$ 37,942                        | \$ 22,660    | \$ 12,001  | \$ 49     | \$ 72,652    |
|   |                                  |              |            |           |              |
|   | Six Months Ended June 30, 2012   |              |            |           | Total        |
|   | Commercial                       | Real estate  | Consumer   | Leases    |              |
| <b>Allowance for loan losses:</b>                               |                                  |              |            |           |              |
| Beginning balance   | \$ 37,927                        | \$ 20,486    | \$ 13,593  | \$ 11     | \$ 72,017    |
| Charge-offs   | (3,237)                          | (408)        | (6,588)    |           | (10,233)     |
| Recoveries  | 250                              | 9            | 1,609      |           | 1,868        |
| Provision   | 3,002                            | 2,573        | 3,387      | 38        | 9,000        |
| Ending Balance  | \$ 37,942                        | \$ 22,660    | \$ 12,001  | \$ 49     | \$ 72,652    |
| Ending Balance: individually evaluated for impairment           | \$ 2,730                         | \$ 1,104     | \$         | \$        | \$ 3,834     |
| Ending Balance: collectively evaluated for impairment           | 35,212                           | 21,556       | 12,001     | 49        | 68,818       |
| Ending Balance: loans acquired with deteriorated credit quality |                                  |              |            |           |              |
| <b>Loans:</b>   |                                  |              |            |           |              |
| Ending Balance: loans   | \$ 2,740,412                     | \$ 2,187,356 | \$ 370,469 | \$ 17,372 | \$ 5,315,609 |
| Ending Balance: individually evaluated for impairment           | 15,208                           | 13,754       | 71         |           | 29,033       |
| Ending Balance: collectively evaluated for impairment           | 2,725,204                        | 2,173,602    | 370,398    | 17,372    | 5,286,576    |
| Ending Balance: loans acquired with deteriorated credit quality |                                  |              |            |           |              |

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2011 (in thousands):

|                                   | Three Months Ended June 30, 2011 |             |           |        | Total     |
|-----------------------------------|----------------------------------|-------------|-----------|--------|-----------|
|                                   | Commercial                       | Real estate | Consumer  | Leases |           |
| <b>Allowance for loan losses:</b> |                                  |             |           |        |           |
| Beginning balance                 | \$ 36,171                        | \$ 22,363   | \$ 14,173 | \$ 11  | \$ 72,718 |
| Charge-offs                       | (2,884)                          | (391)       | (3,913)   |        | (7,188)   |
| Recoveries                        | 225                              | 15          | 1,072     |        | 1,312     |
| Provision                         | 2,092                            | 899         | 2,609     |        | 5,600     |
| Ending Balance                    | \$ 35,604                        | \$ 22,886   | \$ 13,941 | \$ 11  | \$ 72,442 |

|   | Six Months Ended June 30, 2011 |              |            |          | Total        |
|---|--------------------------------|--------------|------------|----------|--------------|
|   | Commercial                     | Real estate  | Consumer   | Leases   |              |
| <b>Allowance for loan losses:</b>                               |                                |              |            |          |              |
| Beginning balance   | \$ 39,138                      | \$ 18,557    | \$ 16,243  | \$ 14    | \$ 73,952    |
| Charge-offs   | (8,084)                        | (458)        | (8,312)    |          | (16,854)     |
| Recoveries  | 376                            | 15           | 2,253      |          | 2,644        |
| Provision   | 4,174                          | 4,772        | 3,757      | (3)      | 12,700       |
| Ending Balance  | \$ 35,604                      | \$ 22,886    | \$ 13,941  | \$ 11    | \$ 72,442    |
| Ending Balance: individually evaluated for impairment           | \$ 1,861                       | \$ 1,115     | \$         | \$       | \$ 2,976     |
| Ending Balance: collectively evaluated for impairment           | 33,743                         | 21,771       | 13,941     | 11       | 69,466       |
| Ending Balance: loans acquired with deteriorated credit quality |                                |              |            |          |              |
| <b>Loans:</b>   |                                |              |            |          |              |
| Ending Balance: loans   | \$ 2,109,456                   | \$ 2,172,845 | \$ 444,433 | \$ 4,569 | \$ 4,731,303 |
| Ending Balance: individually evaluated for impairment           | 5,571                          | 5,376        | 78         |          | 11,025       |
| Ending Balance: collectively evaluated for impairment           | 2,103,885                      | 2,167,469    | 444,355    | 4,569    | 4,720,278    |
| Ending Balance: loans acquired with deteriorated credit quality |                                |              |            |          |              |

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

**Impaired Loans**

This table provides an analysis of impaired loans by class at June 30, 2012 and December 31, 2011 (in thousands):

|                          | June 30, 2012                  |  |   |                                 |                      |                                   |
|--------------------------|--------------------------------|--|---|---------------------------------|----------------------|-----------------------------------|
|                          | Unpaid<br>Principal<br>Balance | Recorded<br>Investment<br>with No<br>Allowance | Recorded<br>Investment<br>with<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance | Average<br>Recorded<br>Investment |
| Commercial:              |                                |  |   |                                 |                      |                                   |
| Commercial               | \$ 18,115                      | \$ 5,567                                       | \$ 9,641                                    | \$ 15,208                       | \$ 2,730             | \$ 12,613                         |
| Commercial credit card   |                                |  |   |                                 |                      |                                   |
| Real estate:             |                                |  |   |                                 |                      |                                   |
| Real estate construction |                                |  |   |                                 |                      | 17                                |
| Real estate commercial   | 10,978                         | 8,573  | 2,178                                       | 10,751                          | 920                  | 9,680                             |
| Real estate residential  | 3,403                          | 1,871  | 1,132                                       | 3,003                           | 184                  | 3,010                             |
| Real estate HELOC        |                                |  |   |                                 |                      |                                   |
| Consumer:                |                                |  |   |                                 |                      |                                   |
| Consumer credit card     |                                |  |   |                                 |                      |                                   |
| Consumer other           | 71                             | 71   |   | 71                              |                      | 92                                |
| Leases                   |                                |  |   |                                 |                      |                                   |
| <b>Total</b>             | <b>\$ 32,567</b>               | <b>\$ 16,082</b>                               | <b>\$ 12,951</b>                            | <b>\$ 29,033</b>                | <b>\$ 3,834</b>      | <b>\$ 25,412</b>                  |

|                          | December 31, 2011              |  |   |                                 |                      |                                   |
|--------------------------|--------------------------------|--|---|---------------------------------|----------------------|-----------------------------------|
|                          | Unpaid<br>Principal<br>Balance | Recorded<br>Investment<br>with No<br>Allowance | Recorded<br>Investment<br>with<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance | Average<br>Recorded<br>Investment |
| Commercial:              |                                |  |   |                                 |                      |                                   |
| Commercial               | \$ 14,368                      | \$ 2,940                                       | \$ 8,121                                    | \$ 11,061                       | \$ 3,662             | \$ 8,308                          |
| Commercial credit card   |                                |  |   |                                 |                      |                                   |
| Real estate:             |                                |  |   |                                 |                      |                                   |
| Real estate construction | 90                             | 50   |   | 50                              |                      | 15                                |
| Real estate commercial   | 9,323                          | 7,983  | 1,247                                       | 9,230                           | 226                  | 7,000                             |
| Real estate residential  | 3,568                          | 2,329  | 859   | 3,188                           | 42                   | 2,312                             |
| Real estate HELOC        |                                |  |   |                                 |                      |                                   |
| Consumer:                |                                |  |   |                                 |                      |                                   |
| Consumer credit card     |                                |  |   |                                 |                      |                                   |
| Consumer other           | 23                             | 23   |   | 23                              |                      | 28                                |
| Leases                   |                                |  |   |                                 |                      |                                   |
| <b>Total</b>             | <b>\$ 27,372</b>               | <b>\$ 13,325</b>                               | <b>\$ 10,227</b>                            | <b>\$ 23,552</b>                | <b>\$ 3,930</b>      | <b>\$ 17,393</b>                  |



## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

**Troubled Debt Restructurings**

The Company adopted ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring (TDR), as of July 1, 2011. This update provides additional guidance on evaluating whether a modification or restructuring of a receivable is a TDR. A loan modification is considered a TDR when a concession had been granted to a debtor experiencing financial difficulties. The Company assessed loan modifications made to borrowers experiencing financial distress occurring after January 1, 2011. The Company's modifications generally include interest rate adjustments, and amortization and maturity date extensions. These modifications allow the debtor short-term cash relief to allow them to improve their financial condition. The Company's restructured loans are individually evaluated for impairment and evaluated as part of the allowance for loan loss as described above in the Allowance for Loan Losses section of this note. There was no significant impact to the allowance for loan losses as a result of adopting the new guidance.

The Company had \$527.0 thousand in commitments to lend to borrowers with loan modifications classified as TDR's. The Company made no TDR's in the last 12 months that had payment defaults for the three or six month periods ended June 30, 2012.

This table provides a summary of loans restructured by class for the three and six months ended June 30, 2012 (*in thousands*):

|                                     | Three Months Ended June 30, 2012 |  |   | Six Months Ended June 30, 2012 |  |   |
|-------------------------------------|----------------------------------|--|---|--------------------------------|--|---|
|                                     | Number of Contracts              | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts            | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| <b>Troubled Debt Restructurings</b> |                                  |  |   |                                |  |   |
| Commercial:                         |                                  |  |   |                                |  |   |
| Commercial credit card              | 1                                | \$ 2,132   | \$ 2,139  | 2                              | \$ 2,932   | \$ 2,939  |
| Real estate:                        |                                  |  |   |                                |  |   |
| Real estate construction            |                                  |  |   |                                |  |   |
| Real estate commercial              |                                  |  |   |                                |  |   |
| Real estate residential             |                                  |  |   |                                |  |   |
| Real estate HELOC                   |                                  |  |   |                                |  |   |
| Consumer:                           |                                  |  |   |                                |  |   |
| Consumer credit card                |                                  |  |   |                                |  |   |
| Consumer other                      |                                  |  |   |                                |  |   |
| Leases                              |                                  |  |   |                                |  |   |
| Total                               | 1                                | \$ 2,132   | \$ 2,139  | 2                              | \$ 2,932   | \$ 2,939  |

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

## 5. Securities

## Securities Available for Sale

This table provides detailed information about securities available for sale at June 30, 2012 and December 31, 2011 (*in thousands*):

|                                  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value   |
|----------------------------------|-------------------|------------------------------|-------------------------------|--------------|
| <b>June 30, 2012</b>             |                   |                              |                               |              |
| U.S. Treasury                    | \$ 77,113         | \$ 924                       | \$ (4)                        | \$ 78,033    |
| U.S. Agencies                    | 923,223           | 7,808                        | (1)                           | 931,030      |
| Mortgage-backed                  | 3,270,595         | 70,958                       | (1,328)                       | 3,340,225    |
| State and political subdivisions | 1,775,248         | 49,709                       | (1,278)                       | 1,823,679    |
| Corporates                       | 155,177           | 1,593                        | (13)                          | 156,757      |
| Total                            | \$ 6,201,356      | \$ 130,992                   | \$ (2,624)                    | \$ 6,329,724 |
|                                  |                   |                              |                               |              |
|                                  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value   |
| <b>December 31, 2011</b>         |                   |                              |                               |              |
| U.S. Treasury                    | \$ 184,523        | \$ 4,802                     | \$                            | \$ 189,325   |
| U.S. Agencies                    | 1,615,637         | 16,434                       | (62)                          | 1,632,009    |
| Mortgage-backed                  | 2,437,282         | 55,985                       | (919)                         | 2,492,348    |
| State and political subdivisions | 1,642,844         | 51,336                       | (144)                         | 1,694,036    |
| Corporates                       | 99,620            | 566                          | (22)                          | 100,164      |
| Total                            | \$ 5,979,906      | \$ 129,123                   | \$ (1,147)                    | \$ 6,107,882 |

The following table presents contractual maturity information for securities available for sale at June 30, 2012 (*in thousands*):

|                                     | Amortized<br>Cost | Fair Value   |
|-------------------------------------|-------------------|--------------|
| Due in 1 year or less               | \$ 595,965        | \$ 599,241   |
| Due after 1 year through 5 years    | 1,612,012         | 1,644,199    |
| Due after 5 years through 10 years  | 607,199           | 628,664      |
| Due after 10 years                  | 115,585           | 117,395      |
| Total                               | 2,930,761         | 2,989,499    |
| Mortgage-backed securities          | 3,270,595         | 3,340,225    |
| Total securities available for sale | \$ 6,201,356      | \$ 6,329,724 |

Securities may be disposed of before contractual maturities due to sales by the Company or because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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For the six months ended June 30, 2012, proceeds from the sales of securities available for sale were \$974.6 million compared to \$884.3 million for the same period in 2011. Securities transactions resulted in gross realized gains of \$20.1 million and \$13.6 million for the six months ended June 30, 2012 and 2011. The gross realized losses for the six months ended June 30, 2012 and 2011 were \$0.3 million and \$0.1 million, respectively.

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

**Trading Securities**

The net unrealized gains on trading securities at June 30, 2012 and June 30, 2011 were \$495.0 thousand and \$746.9 thousand respectively, and were included in trading and investment banking income on the consolidated statements of income.

**Securities Held to Maturity**

The table below provides detailed information for securities held to maturity at June 30, 2012 and December 31, 2011 (*in thousands*):

|                                  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|----------------------------------|-------------------|------------------------------|-------------------------------|------------|
| <b>June 30, 2012</b>             |                   |                              |                               |            |
| State and political subdivisions | \$ 96,250         | \$ 13,944                    | \$                            | \$ 110,194 |
| <b>December 31, 2011</b>         |                   |                              |                               |            |
| State and political subdivisions | \$ 89,246         | \$ 13,041                    | \$                            | \$ 102,287 |

The following table presents contractual maturity information for securities held to maturity at June 30, 2012 (*in thousands*):

|  | Amortized<br>Cost | Fair<br>Value     |
|--|-------------------|-------------------|
| Due in 1 year or less                    | \$ 66             | \$ 76             |
| Due after 1 year through 5 years         | 22,399            | 25,644            |
| Due after 5 years through 10 years       | 27,541            | 31,531            |
| Due after 10 years                       | 46,244            | 52,943            |
| <b>Total securities held to maturity</b> | <b>\$ 96,250</b>  | <b>\$ 110,194</b> |

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

There were no sales of securities held to maturity during the first six months of 2012 or 2011.

Securities available for sale and held to maturity with a market value of \$4.4 billion at June 30, 2012, and \$5.4 billion at December 31, 2011, were pledged to secure U.S. Government deposits, other public deposits, certain trust deposits as required by law, and other potential borrowings.

The following table shows the Company's available for sale investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2012 and December 31, 2011 (*in thousands*):

| June 30, 2012 | Less than 12 months | 12 months or more | Total |
|---------------|---------------------|-------------------|-------|
|---------------|---------------------|-------------------|-------|

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| Description of Securities                                      | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
|--|------------|-------------------|------------|-------------------|------------|-------------------|
| U.S. Treasury  | \$ 5,041   | \$ (4)            | \$         | \$                | \$ 5,041   | \$ (4)            |
| U.S. Agencies  | 5,033      | (1)               |            |                   | 5,033      | (1)               |
| Mortgage-backed  | 192,684    | (1,328)           |            |                   | 192,684    | (1,328)           |
| State and political subdivisions                               | 176,943    | (1,277)           | 1,380      | (1)               | 178,323    | (1,278)           |
| Corporates   | 11,217     | (13)              |            |                   | 11,217     | (13)              |
| Total temporarily- impaired debt securities available for sale | \$ 390,918 | \$ (2,623)        | \$ 1,380   | \$ (1)            | \$ 392,298 | \$ (2,624)        |

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

| December 31, 2011<br>Description of Securities                 | Less than 12 months |                   | 12 months or more |                   | Total      |                   |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury  | \$                  | \$                | \$                | \$                | \$         | \$                |
| U.S. Agencies  | 66,992              | (62)              |                   |                   | 66,992     | (62)              |
| Mortgage-backed  | 226,081             | (919)             |                   |                   | 226,081    | (919)             |
| State and political subdivisions                               | 45,918              | (139)             | 2,571             | (5)               | 48,489     | (144)             |
| Corporates   | 12,471              | (22)              |                   |                   | 12,471     | (22)              |
| Total temporarily- impaired debt securities available for sale | \$ 351,462          | \$ (1,142)        | \$ 2,571          | \$ (5)            | \$ 354,033 | \$ (1,147)        |

The unrealized losses in the Company's investments in direct obligations of U.S. treasury obligations, U.S. government agencies, federal agency mortgage-backed securities, municipal securities, and corporates were caused by changes in interest rates. Because the Company does not have the intent to sell these securities, it is more likely than not that the Company will not be required to sell these securities before a recovery of fair value. The Company expects to recover its cost basis in the securities and does not consider these investments to be other-than-temporarily impaired at June 30, 2012.

#### 6. Goodwill and Other Intangibles

Changes in the carrying amount of goodwill for the periods ended June 30, 2012 and December 31, 2011 by operating segment are as follows (*in thousands*):

|                                  | Bank       | Institutional Investment Management | Asset Servicing | Total      |
|----------------------------------|------------|-------------------------------------|-----------------|------------|
| Balances as of January 1, 2011   | \$ 144,109 | \$ 47,529                           | \$ 19,476       | \$ 211,114 |
| Balances as of December 31, 2011 | \$ 144,109 | \$ 47,529                           | \$ 19,476       | \$ 211,114 |
| Balances as of January 1, 2012   | \$ 144,109 | \$ 47,529                           | \$ 19,476       | \$ 211,114 |
| Balances as of June 30, 2012     | \$ 144,109 | \$ 47,529                           | \$ 19,476       | \$ 211,114 |

Following are the intangible assets that continue to be subject to amortization as of June 30, 2012 and December 31, 2011 (*in thousands*):

|                                | As of June 30, 2012   |                          |                     |
|--------------------------------|-----------------------|--------------------------|---------------------|
|                                | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Core deposit intangible assets | \$ 36,497             | \$ 29,535                | \$ 6,962            |
| Customer relationships         | 104,997               | 36,651                   | 68,346              |
| Other intangible assets        | 3,247                 | 1,951                    | 1,296               |
| Total intangible assets        | \$ 144,741            | \$ 68,137                | \$ 76,604           |

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|                                | As of December 31, 2011 |           |           |
|--------------------------------|-------------------------|-----------|-----------|
| Core deposit intangible assets | \$ 36,497               | \$ 28,629 | \$ 7,868  |
| Customer relationships         | 105,544                 | 30,645    | 74,899    |
| Other intangible assets        | 3,247                   | 1,683     | 1,564     |
| Total intangible assets        | \$ 145,288              | \$ 60,957 | \$ 84,331 |

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

Following is the aggregate amortization expense recognized in each period (in thousands):

|                                | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|--------------------------------|--------------------------------|----------|------------------------------|----------|
|                                | 2012                           | 2011     | 2012                         | 2011     |
| Aggregate amortization expense | \$ 3,733                       | \$ 4,159 | \$ 7,585                     | \$ 8,165 |

Estimated amortization expense of intangible assets on future years (in thousands):

|   |          |
|---|----------|
| For the six months ending December 31, 2012 | \$ 7,242 |
| For the year ending December 31, 2012       | 13,374   |
| For the year ending December 31, 2013       | 12,302   |
| For the year ending December 31, 2014       | 9,706    |
| For the year ending December 31, 2015       | 8,433    |

#### 7. Commitments, Contingencies and Guarantees

In the normal course of business, the Company is party to financial instruments with off-balance-sheet risk in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, commercial letters of credit, standby letters of credit, futures contracts, forward foreign exchange contracts and spot foreign exchange contracts. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheet. The contract or notional amount of those instruments reflects the extent of involvement the Company has in particular classes of financial instruments. Many of the commitments expire without being drawn upon, therefore, the total amount of these commitments does not necessarily represent the future cash requirements of the Company.

The Company's exposure to credit loss in the event of nonperformance by the counterparty to the financial instruments for commitments to extend credit, commercial letters of credit, and standby letters of credit is represented by the contract or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The following table summarizes the Company's off-balance sheet financial instruments.

**Contract or Notional Amount** (in thousands):

|  | June 30,<br>2012 | December 31,<br>2011 |
|--|------------------|----------------------|
| Commitments to extend credit for loans (excluding credit card loans) | \$ 2,272,762     | \$ 2,202,838         |
| Commitments to extend credit under credit card loans                 | 2,122,416        | 2,059,193            |
| Commercial letters of credit   | 7,547            | 19,564               |
| Standby letters of credit  | 315,679          | 320,119              |
| Futures contracts  | 15,000           | 30,600               |
| Forward foreign exchange contracts                                   | 59,950           | 119,200              |
| Spot foreign exchange contracts                                      | 3,219            | 3,040                |





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UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

**8. Business Segment Reporting**

The Company has strategically aligned its operations into the following four reportable segments (collectively, "Business Segments"): Bank, Payment Solutions, Institutional Investment Management, and Asset Servicing. Business segment financial results produced by the Company's internal management accounting system are evaluated regularly by the Executive Committee in deciding how to allocate resources and assess performance for individual Business Segments. The Business Segments were redefined during the first quarter of 2012 to reflect changes in how executive management responsibilities were changed by the Executive Committee for each of the core businesses, the products and services provided and the types of customers served, and how financial information is currently evaluated by management. The management accounting system assigns balance sheet and income statement items to each business segment using methodologies that are refined on an ongoing basis. In 2011, the Business Segments were Commercial Financial Services, Institutional Financial Services, and Personal Financial Services. For comparability purposes, amounts in all periods presented are based on methodologies in effect at June 30, 2012. Previously reported results have been reclassified to conform to the current organizational structure.

The following summaries provide information about the activities of each segment:

The *Bank* provides a full range of banking services to commercial, retail, government and correspondent bank customers through the Company's branches, call center, internet banking, and ATM network. Services include traditional commercial and consumer banking, treasury management, leasing, foreign exchange, merchant bankcard, wealth management, brokerage, insurance, capital markets, investment banking, corporate trust, and correspondent banking.

*Payment Solutions* provides consumer and commercial credit and debit card, prepaid debit card solutions, healthcare services, and institutional cash management. Healthcare services include health savings account and flexible savings account products for healthcare providers, third-party administrators and large employers.

*Institutional Investment Management* provides equity and fixed income investment strategies in the intermediary and institutional markets via mutual funds, traditional separate accounts and sub-advisory relationships.

*Asset Servicing* provides services to the asset management industry, supporting a range of investment products, including mutual funds, alternative investments and managed accounts. Services include fund administration, fund accounting, investor services, transfer agency, distribution, marketing, custody, alternative investment services, managed account services, and collective and multiple-series trust services.

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

**Business Segment Information**

Segment financial results were as follows (in thousands):

|                           | Three Months Ended June 30, 2012 |                   |                                     |                 |               |
|---------------------------|----------------------------------|-------------------|-------------------------------------|-----------------|---------------|
|                           | Bank                             | Payment Solutions | Institutional Investment Management | Asset Servicing | Total         |
| Net interest income       | \$ 69,447                        | \$ 10,558         | \$ 1                                | \$ 367          | \$ 80,373     |
| Provision for loan losses | 2,281                            | 2,219             |                                     |                 | 4,500         |
| Noninterest income        | 50,574                           | 17,172            | 23,671                              | 18,809          | 110,226       |
| Noninterest expense       | 94,626                           | 16,513            | 16,271                              | 17,276          | 144,686       |
| Income before taxes       | 23,114                           | 8,998             | 7,401                               | 1,900           | 41,413        |
| Income tax expense        | 6,411                            | 2,817             | 2,167                               | 853             | 12,248        |
| Net income                | \$ 16,703                        | \$ 6,181          | \$ 5,234                            | \$ 1,047        | \$ 29,165     |
| Average assets            | \$ 10,800,000                    | \$ 871,000        | \$ 83,000                           | \$ 1,448,000    | \$ 13,202,000 |

|                           | Three Months Ended June 30, 2011 |                   |                                     |                 |               |
|---------------------------|----------------------------------|-------------------|-------------------------------------|-----------------|---------------|
|                           | Bank                             | Payment Solutions | Institutional Investment Management | Asset Servicing | Total         |
| Net interest income       | \$ 68,999                        | \$ 10,440         | \$ 11                               | \$ 468          | \$ 79,918     |
| Provision for loan losses | 2,868                            | 2,732             |                                     |                 | 5,600         |
| Noninterest income        | 52,674                           | 14,778            | 22,157                              | 18,247          | 107,856       |
| Noninterest expense       | 97,205                           | 14,611            | 17,366                              | 16,399          | 145,581       |
| Income before taxes       | 21,600                           | 7,875             | 4,802                               | 2,316           | 36,593        |
| Income tax expense        | 6,141                            | 2,159             | 1,185                               | 787             | 10,272        |
| Net income                | \$ 15,459                        | \$ 5,716          | \$ 3,617                            | \$ 1,529        | \$ 26,321     |
| Average assets            | \$ 10,044,000                    | \$ 683,000        | \$ 89,000                           | \$ 1,547,000    | \$ 12,363,000 |

|                           | Six Months Ended June 30, 2012 |                   |                                     |                 |            |
|---------------------------|--------------------------------|-------------------|-------------------------------------|-----------------|------------|
|                           | Bank                           | Payment Solutions | Institutional Investment Management | Asset Servicing | Total      |
| Net interest income       | \$ 137,499                     | \$ 21,282         | \$ 3                                | \$ 678          | \$ 159,462 |
| Provision for loan losses | 4,256                          | 4,744             |                                     |                 | 9,000      |
| Noninterest income        | 121,029                        | 32,743            | 49,798                              | 38,957          | 242,527    |
| Noninterest expense       | 188,117                        | 31,339            | 33,192                              | 33,942          | 286,590    |
| Income before taxes       | 66,155                         | 17,942            | 16,609                              | 5,693           | 106,399    |

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|                    |               |            |           |              |               |
|--------------------|---------------|------------|-----------|--------------|---------------|
| Income tax expense | 18,406        | 5,491      | 4,800     | 2,170        | 30,867        |
| Net income         | \$ 47,749     | \$ 12,451  | \$ 11,809 | \$ 3,523     | \$ 75,532     |
| Average assets     | \$ 10,935,000 | \$ 857,000 | \$ 83,000 | \$ 1,375,000 | \$ 13,250,000 |

|                           | Six Months Ended June 30, 2011 |                   |                                     |                 |               |
|---------------------------|--------------------------------|-------------------|-------------------------------------|-----------------|---------------|
|                           | Bank                           | Payment Solutions | Institutional Investment Management | Asset Servicing | Total         |
| Net interest income       | \$ 136,560                     | \$ 20,869         | \$ 14                               | \$ 923          | \$ 158,366    |
| Provision for loan losses | 6,975                          | 5,725             |                                     |                 | 12,700        |
| Noninterest income        | 109,663                        | 27,753            | 42,563                              | 35,627          | 215,606       |
| Noninterest expense       | 188,876                        | 27,935            | 32,546                              | 31,740          | 281,097       |
| Income before taxes       | 50,372                         | 14,962            | 10,031                              | 4,810           | 80,175        |
| Income tax expense        | 14,284                         | 4,490             | 2,515                               | 1,695           | 22,984        |
| Net income                | \$ 36,088                      | \$ 10,472         | \$ 7,516                            | \$ 3,115        | \$ 57,191     |
| Average assets            | \$ 10,172,000                  | \$ 665,000        | \$ 87,000                           | \$ 1,560,000    | \$ 12,484,000 |

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

## 9. Fair Value Measurements

The following table presents information about the Company's assets measured at fair value on a recurring basis as of June 30, 2012, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

Fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets and liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the hierarchy. In such cases, the fair value is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Assets measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011 (in thousands):

| Description                        | June 30,<br>2012 | Fair Value Measurement at June 30, 2012 Using<br>Quoted Prices in<br>Active<br>Markets |   |   |
|------------------------------------|------------------|--|---|---|
|                                    |                  | for Identical<br>Assets (Level<br>1)   | Significant Other<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
| <b>Assets</b>                      |                  |  |   |   |
| U.S. Treasury                      | \$ 400           | \$ 400   | \$  | \$  |
| U.S. Agencies                      | 1,523            | 1,523  |   |   |
| Mortgage-backed                    | 27,092           |  | 27,092  |   |
| State and political subdivisions   | 6,528            |  | 6,528   |   |
| Trading other                      | 21,301           | 20,928   | 373   |   |
| Trading securities                 | 56,844           | 22,851   | 33,993  |   |
| U.S. Treasury                      | 78,033           | 78,033   |   |   |
| U.S. Agencies                      | 931,030          | 931,030  |   |   |
| Mortgage-backed                    | 3,340,225        |  | 3,340,225   |   |
| State and political subdivisions   | 1,823,679        |  | 1,823,679   |   |
| Corporates                         | 156,757          | 156,757  |   |   |
| Available for sale securities      | 6,329,724        | 1,165,820  | 5,163,904   |   |
| Total                              | \$ 6,386,568     | \$ 1,188,671   | \$ 5,197,897  | \$  |
| <b>Liabilities</b>                 |                  |  |   |   |
| Contingent consideration liability | \$ 57,792        | \$   | \$  | \$ 57,792                                       |

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

| Description                        | December 31,<br>2011 | Fair Value Measurement at December 31, 2011 Using                          |   |   |
|------------------------------------|----------------------|--|---|---|
|                                    |                      | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets (Level<br>1) | Significant Other<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
| <b>Assets</b>                      |                      |  |   |   |
| U.S. Treasury                      | \$ 400               | \$ 400   | \$  | \$  |
| U.S. Agencies                      | 1,517                | 1,517  |   |   |
| Mortgage-backed                    | 29,641               |  | 29,641  |   |
| State and political subdivisions   | 7,252                |  | 7,252   |   |
| Trading other                      | 19,332               | 19,317   | 15  |   |
| Trading securities                 | 58,142               | 21,234   | 36,908  |   |
| U.S. Treasury                      | 189,325              | 189,325  |   |   |
| U.S. Agencies                      | 1,632,009            | 1,632,009  |   |   |
| Mortgage-backed                    | 2,492,348            |  | 2,492,348   |   |
| State and political subdivisions   | 1,694,036            |  | 1,694,036   |   |
| Corporates                         | 100,164              | 100,164  |   |   |
| Available for sale securities      | 6,107,882            | 1,921,498  | 4,186,384   |   |
| Total                              | \$ 6,166,024         | \$ 1,942,732   | \$ 4,223,292  | \$  |
| <b>Liabilities</b>                 |                      |  |   |   |
| Contingent consideration liability | \$ 72,046            | \$   | \$  | \$ 72,046                                       |

The following table reconciles the beginning and ending balances of the contingent consideration liability:

|  | Six Months Ended June 30, |           |
|--|---------------------------|-----------|
|  | 2012                      | 2011      |
| Beginning Balance                                    | \$ 72,046                 | \$ 77,719 |
| Payment of contingent considerations on acquisitions | (7,651)                   | (2,615)   |
| Income from fair value adjustments                   | (6,603)                   |           |
| Ending Balance                                       | \$ 57,792                 | \$ 75,104 |

The following table presents certain quantitative information about the significant unobservable input used in the fair value measurement for the contingent consideration liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

| Description<br>Liabilities | Valuation Techniques | Significant<br>Unobservable Inputs | Range                 |
|----------------------------|----------------------|------------------------------------|-----------------------|
|                            |                      |                                    | (Weighted<br>Average) |

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Contingent consideration liability                      Present value techniques                      Revenue growth percentage                      5% - 36%

An increase in the revenue growth percentage may result in a significantly higher estimated fair value of the contingent consideration liability. Alternatively, a decrease in the revenue growth percentage may result in a significantly lower estimated fair value of the contingent consideration liability.

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

**Valuation methods for instruments measured at fair value on a recurring basis**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments measured on a recurring basis:

**Securities Available for Sale and Investment Securities** Fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

**Trading Securities** Fair values for trading securities (including financial futures), are based on quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices for similar securities.

**Contingent Consideration** The fair value of contingent consideration liabilities are derived from a discounted cash flow model of future contingent payments. The valuation of these liabilities are estimated by a collaborative effort of the Company's mergers and acquisitions group, business unit management, and the corporate accounting group. These groups report primarily to the Company's Chief Financial Officer. These future contingent payments are calculated based on estimates of future income and expense from each acquisition. These estimated cash flows are projected by the business unit management and reviewed by the mergers and acquisitions group. To obtain a current valuation of these projected cash flows, an expected present value technique is utilized to calculate a discount rate. The cash flow projections and discount rates are reviewed quarterly and updated as market conditions necessitate. Potential valuation adjustments are made as future income and expense projections for each acquisition are made which affect the calculation of the related contingent consideration payment. These adjustments are recorded through noninterest income and expense.

Assets measured at fair value on a non-recurring basis as of June 30, 2012 and December 31, 2011 (*in thousands*):

| Description             | June 30,<br>2012 | Fair Value Measurement at June 30, 2012 Using  |   |  | Total Gains<br>(Losses)<br>Recognized<br>During the<br>Six Months<br>Ended<br>June 30 |
|-------------------------|------------------|--|---|--|---|
|                         |                  | Quoted Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |   |
| Impaired loans          | \$ 9,117         | \$   | \$  | \$ 9,117   | \$ 96   |
| Other real estate owned | 1,093            |  |   | 1,093  | \$ (46)   |
| Total                   | \$ 10,210        | \$   | \$  | \$ 10,210  | \$ 50   |

| Description | December 31,<br>2011 | Fair Value Measurement at December 31, 2011 Using   |   |  | Total Gains<br>(Losses)<br>Recognized<br>During the<br>Twelve<br>Months<br>Ended<br>December 31 |
|-------------|----------------------|---|---|--|---|
|             |                      | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |   |



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|                         |           | 1)            |           |           |           |               |           |                |
|-------------------------|-----------|---------------|-----------|-----------|-----------|---------------|-----------|----------------|
| Impaired loans          | \$        | 6,296         | \$        | \$        | \$        | 6,296         | \$        | (1,370)        |
| Other real estate owned |           | 5,909         |           |           |           | 5,909         |           | (1,065)        |
| <b>Total</b>            | <b>\$</b> | <b>12,505</b> | <b>\$</b> | <b>\$</b> | <b>\$</b> | <b>12,505</b> | <b>\$</b> | <b>(2,435)</b> |

**Valuation methods for instruments measured at fair value on a nonrecurring basis**

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments measured on a non-recurring basis:

**Impaired loans** While the overall loan portfolio is not carried at fair value, adjustments are recorded on certain loans to reflect partial write-downs that are based on the value of the underlying collateral. In determining the value of real estate collateral, the Director of Property Management, who reports to the Chief Risk Officer, obtains external appraisals. The external appraisals are generally based on recent sales of comparable properties which are then adjusted for the unique characteristics of the property being valued. Upon receiving the external appraisal, the Director of Property Management in collaboration with the Company's credit department led by the Chief Credit Officer review the appraisal to determine if the appraisal is a reasonable basis for the value of the property based upon historical experience and detailed knowledge of the specific property and location. In the case of non-real estate collateral, reliance is placed on a variety of sources, including external estimates of value and judgments based on the experience and expertise of internal specialists within the Company's property management group and the Company's credit department. The valuation of the impaired loans is reviewed on a quarterly basis. Because many of these inputs are not observable, the measurements are classified as Level 3.

**Other real estate owned** Other real estate owned consists of loan collateral which has been repossessed through foreclosure. This collateral is comprised of commercial and residential real estate and other non-real estate property, including auto, recreational and marine vehicles. Other real estate owned is recorded as held for sale initially at the lower of the loan balance or fair value of the collateral. The initial valuation of the foreclosed property is obtained through an appraisal process similar to the process described in the impaired loans paragraph above. Subsequent to foreclosure, valuations are reviewed quarterly and updated periodically, and the assets may be marked down further, reflecting a new cost basis. Fair value measurements may be based upon appraisals or third-party price opinions and, accordingly, those measurements may be classified as Level 2. Other fair value measurements may be based on internally developed pricing methods, and those measurements may be classified as Level 3.

Fair value disclosures require disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The estimated fair value of the Company's financial instruments at June 30, 2012 and December 31, 2011 are as follows (*in millions*):

|  | Fair Value Measurement at June 30, 2012 Using |   |   |  | Total<br>Estimated<br>Fair Value |
|--|---|---|---|--|----------------------------------|
|  | Carrying<br>Amount                            | Quoted Prices<br>in<br>Active<br>Markets<br>for<br>Identical Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                                  |
| <b>FINANCIAL ASSETS</b>                      |   |   |   |  |                                  |
| Securities held to maturity                  | \$ 96.3                                       | \$  | \$ 110.2  | \$   | \$ 110.2                         |
| Federal Reserve Bank and other stock         | 21.7  |   | 21.7  |  | 21.7                             |
| Loans (exclusive of allowance for loan loss) | 5,326.6                                       |   | 5,413.2   |  | 5,413.2                          |
| <b>FINANCIAL LIABILITIES</b>                 |   |   |   |  |                                  |
| Time deposits                                | 1,191.4                                       |   | 1,199.0   |  | 1,199.0                          |
| Long-term debt                               | 5.3   |   | 5.4   |  | 5.4                              |
| <b>OFF-BALANCE SHEET ARRANGEMENTS</b>        |   |   |   |  |                                  |
| Commitments to extend credit for loans       |   |   |   |  | 2.7                              |
| Commercial letters of credit                 |   |   |   |  | 0.1                              |
| Standby letters of credit                    |   |   |   |  | 1.1                              |



## UMB FINANCIAL CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

|  | Fair Value Measurement at December 31, 2011 Using   |   |   |  | Total<br>Estimated<br>Fair Value |
|--|---|---|---|--|----------------------------------|
|  | Quoted Prices<br>in<br>Active<br>Markets<br>for<br>Identical Assets<br>Carrying<br>Amount | Significant<br>Other<br>Observable<br>Inputs<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                                  |
| <b>FINANCIAL ASSETS</b>                      |   |   |   |  |                                  |
| Securities held to maturity                  | \$ 89.2   | \$  | \$ 102.3  | \$   | \$ 102.3                         |
| Federal Reserve Bank and other stock         | 22.2  |   | 22.2  |  | 22.2                             |
| Loans (exclusive of allowance for loan loss) | 4,898.5   |   | 5,042.0   |  | 5,042.0                          |
| <b>FINANCIAL LIABILITIES</b>                 |   |   |   |  |                                  |
| Time deposits                                | 1,548.4   |   | 1,557.8   |  | 1,557.8                          |
| Long-term debt                               | 6.5   |   | 6.8   |  | 6.8                              |
| <b>OFF-BALANCE SHEET ARRANGEMENTS</b>        |   |   |   |  |                                  |
| Commitments to extend credit for loans       |   |   |   |  | 5.8                              |
| Commercial letters of credit                 |   |   |   |  | 0.3                              |
| Standby letters of credit                    |   |   |   |  | 2.2                              |

The fair values of cash and short-term investments, demand and savings deposits, federal funds and repurchase agreements, and short-term debt approximate the carrying values.

**Securities Held to Maturity** Fair value of held-to-maturity securities are estimated by discounting the future cash flows using the current rates at which similar investments would be made to borrowers with similar credit ratings and for the same remaining maturities.

**Federal Reserve Bank and Other Stock** Amount consists of Federal Reserve Bank stock held by the Company's affiliate banks and other miscellaneous investments. The fair value is considered to be the carrying value because no readily determinable market exists for these investments.

**Loans** Fair values are estimated for portfolios with similar financial characteristics. Loans are segregated by type, such as commercial, real estate, consumer, and credit card. Each loan category is further segmented into fixed and variable interest rate categories. The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

**Time Deposits** The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates that are currently offered for deposits of similar remaining maturities.

**Long-Term Debt** Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

**Other Off-Balance Sheet Instruments** The fair value of loan commitments and letters of credit are determined based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the present creditworthiness of the counterparties. Neither the fees earned during the year on these instruments nor their fair value at year-end are significant to the Company's consolidated financial position.

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2012 and December 31, 2011. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amount presented herein.

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In the previously filed Form 10-Q for the period ended June 30, 2011, the Company inadvertently excluded certain disclosures regarding the fair value of the contingent consideration liability from this footnote as required by ASC 820, *Fair Value Measurements and Disclosures*. As a result, the accompanying 2011 fair value footnote has been amended to include the appropriate disclosures. There is no quantitative impact on the financial statements of the Company as a result of this additional disclosure.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This review highlights the material changes in the results of operations and changes in financial condition for the three-month and six-month periods ended June 30, 2012. It should be read in conjunction with the accompanying condensed consolidated financial statements, notes to condensed consolidated financial statements and other financial statistics appearing elsewhere in this report. Results of operations for the periods included in this review are not necessarily indicative of results to be attained during any future period.

**SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

The information included or incorporated by reference in this report contains forward-looking statements of expected future developments within the meaning of and pursuant to the safe harbor provisions established by Section 21E of the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995. These forward-looking statements may refer to financial condition, results of operations, plans, objectives, future financial performance and business of the Company, including, without limitation:

Statements that are not historical in nature; and

Statements preceded by, followed by or that include the words believes, expects, may, should, could, anticipates, estimates, intends, or similar words or expressions.

Forward-looking statements are not guarantees of future performance or results. You are cautioned not to put undue reliance on any forward-looking statement which speaks only as of the date it was made. Forward-looking statements reflect management's expectations and are based on currently available data; however, they involve risks, uncertainties and assumptions. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

General economic and political conditions, either nationally, internationally or in the Company's footprint, may be less favorable than expected;

Legislative or regulatory changes;

Changes in the interest rate environment;

Changes in the securities markets impacting mutual fund performance and flows;

Changes in operations;

The ability to successfully and timely integrate acquisitions;

Competitive pressures among financial services companies may increase significantly;

Changes in technology may be more difficult or expensive than anticipated;

Changes in the ability of customers to repay loans;

Changes in loan demand may adversely affect liquidity needs; and

Changes in employee costs.

Any forward-looking statements should be read in conjunction with information about risks and uncertainties set forth in this report and in documents incorporated herein by reference. Forward-looking statements speak only as of the date they are made, and the Company does not intend to review or revise any particular forward-looking statement in light of events that occur thereafter or to reflect the occurrence of unanticipated events.

## Overview

The Company focuses on the following four core strategies. Management believes these strategies will guide our efforts to achieving our vision, to deliver *the* Unparalleled Customer Experience, all while maintaining a focus to improve net income and strengthen the balance sheet.

The first strategy is to maintain high quality through a strong balance sheet, solid credit quality, a low cost of funding, and effective risk management. The strength in the balance sheet can be seen in the solid credit quality of the earning assets and the Company's continued growth in low cost funding. At June 30, 2012, the Company's nonperforming assets as a percentage of total assets was 0.28 percent. As a percentage of loans, nonperforming loans increased to 0.58 percent as compared to 0.33 percent on June 30, 2011. While the Company experienced a slight increase, these ratios are amongst the best in the industry. These credit quality ratios were achieved while maintaining positive directional growth in average earning assets, which increased 6.6% from June 30, 2011, driven by a 29.2 percent increase in average noninterest-bearing demand deposits compared to June 30, 2011.

The second strategy is to deliver profitable and sustainable growth by accelerating fee businesses, growing quality earning assets, maximizing efficiencies, and maintaining sales leverage. The Company's acceleration of fee businesses is apparent with the increase in trust and securities processing. Trust and securities processing income increased \$2.1 million, or 4.0 percent, for the three months ended June 30, 2012 compared to the same period in 2011. The increase in trust and securities processing income was primarily due to a \$0.5 million, or 2.9 percent, increase in fund administration and custody services and a \$0.6 million, or 3.5 percent, increase in fees related to institutional and personal investment management services. Also notable and continuing to push industry trends, the Company produced double digit loan growth. While maintaining the aforementioned credit ratios, the Company's June 30, 2012 average loans increased \$492.8 million, or 10.4 percent, as compared to the same three month period one year ago.

The third strategy is to maintain diversified revenue streams. The emphasis on fee-based operations helps reduce the Company's exposure to changes in interest rates. During the second quarter of 2012, noninterest income increased \$2.4 million, or 2.2 percent, compared to the same period of 2011. The Company continues to emphasize its asset management, brokerage, bankcard services, health care services, and treasury management businesses. In particular, during the second quarter of 2012, this favorable change is primarily attributable to increased trust and securities processing income. At June 30, 2012, noninterest income represented 57.8 percent of total revenues, as compared to 57.4 percent at June 30, 2011.

The fourth strategy is a focus on capital management. The Company places a significant emphasis on the maintenance of a strong capital position, which management believes promotes investor confidence, provides access to funding sources under favorable terms, and enhances the Company's ability to capitalize on business growth and acquisition opportunities. The Company continues to maximize shareholder value through a mix of reinvesting in organic growth, investing in acquisitions, evaluating increased dividends over time and utilizing a share buy-back strategy when appropriate. At June 30, 2012, the Company had \$1.3 billion in total shareholders' equity. This is an increase of \$119.0 million, or 10.5 percent, compared to total shareholders' equity at June 30, 2011. At June 30, 2012, the Company had a total risk-based capital ratio of 12.59 percent, which is higher than the 10 percent regulatory minimum to be considered well-capitalized. The Company repurchased 56,489 shares at an average price of \$46.35 per share during the second quarter of 2012.

## Earnings Summary

The Company recorded consolidated net income of \$29.2 million for the three-month period ended June 30, 2012, compared to \$26.3 million for the same period a year earlier. This represents a 10.8 percent increase over the three-month period ended June 30, 2011. Basic earnings per share for the second quarter of 2012 were \$0.73 per share (\$0.72 per share fully-diluted) compared to \$0.66 per share (\$0.65 per share fully-diluted) for the second quarter of 2011. Return on average assets and return on average common shareholders' equity for the three-month period ended June 30, 2012 were 0.89 and 9.42 percent, respectively, compared to 0.85 and 9.37 percent for the three-month period ended June 30, 2011.



The Company recorded consolidated net income of \$75.5 million for the six-month period ended June 30, 2012, compared to \$57.2 million for the same period a year earlier. This represents a 32.1 percent increase over the six-month period ended June 30, 2011. Basic earnings per share for the six-month period ended June 30, 2012 were \$1.89 per share (\$1.87 per share fully-diluted) compared to \$1.43 per share (\$1.42 per share fully-diluted) for the period in 2011. Return on average assets and return on average common shareholders' equity for the six-month period ended June 30, 2012 were 1.15 and 12.36 percent, respectively, compared to 0.92 and 10.47 percent for the same period in 2011.

Net interest income for the three and six-month periods ended June 30, 2012 increased \$0.5 million, or 0.6 percent, and \$1.1 million, or 0.7 percent, respectively, compared to the same period in 2011. For the three-month period ended June 30, 2012, average earning assets increased by \$839.3 million, or 7.4 percent, and for the six-month period ended June 30, 2012, they increased by \$755.9 million, or 6.6 percent, compared to the same periods in 2011. Net interest margin, on a tax-equivalent basis, decreased to 2.82 percent and 2.79 percent for the three and six-months periods ended June 30, 2012, compared to 2.98 percent and 2.94 percent for the same periods in 2011. These changes are discussed in greater detail below under Net Interest Income.

The provision for loan losses decreased by \$1.1 million and \$3.7 million for the three and six-month periods ended June 30, 2012, compared to the same periods in 2011. These changes are a direct result of applying the Company's methodology for computing the allowance for loan losses. With the decreased provision, the allowance for loan losses as a percentage of total loans decreased by 16 basis points to 1.37 percent as of June 30, 2012, compared to June 30, 2011. For a description of the Company's methodology for computing the allowance for loan losses, please see the summary discussion of the Allowance for Loan Losses within the Critical Accounting Policies and Estimates subsection of the Management's Discussion and Analysis of Financial Condition and Results of Operations section in the Company's 2011 Annual Report on Form 10-K.

Noninterest income increased by \$2.4 million, or 2.2 percent, for the three-month period ended June 30, 2012 and increased by \$26.9 million, or 12.5 percent, for the six-month period ended June 30, 2012, compared to the same periods one year ago. These increases are discussed in greater detail below under Noninterest Income.

Noninterest expense decreased by \$0.9 million, or 0.6 percent, for the three-month period ended June 30, 2012, and increased by \$5.5 million, or 2.0 percent, for the six-month period ended June 30, 2012, compared to the same periods in 2011. These increases are discussed in greater detail below under Noninterest Expense.

### **Net Interest Income**

Net interest income is a significant source of the Company's earnings and represents the amount by which interest income on earning assets exceeds the interest expense paid on liabilities. The volume of interest-earning assets and the related funding sources, the overall mix of these assets and liabilities, and the rates paid on each affect net interest income. For the three-month period ended June 30, 2012, average earning assets increased by \$839.3 million, or 7.4 percent, and for the six-month period ended June 30, 2012, they increased by \$755.9 million, or 6.6 percent, compared to the same periods in 2011. Net interest margin, on a tax-equivalent basis, decreased to 2.82 percent and 2.79 percent for the three and six-months periods ended June 30, 2012, compared to 2.98 percent and 2.94 percent for the same periods in 2011.

Table 1 shows the impact of earning asset rate changes compared to changes in the cost of interest-bearing liabilities. The Company continues to experience a repricing of these earning assets and interest-bearing liabilities during the recent interest rate cycle. While the Company continues to see declining rates, it has been able to improve net interest income through volume. As illustrated in this table, net interest spread for the three months ended June 30, 2012 decreased by 15 basis points and net interest margin decreased by 16 basis points compared to the same period in 2011. Net interest spread for the six months ended June 30, 2012 decreased by 15 basis points and net interest margin decreased by 15 basis points compared to the same period in 2011. These results are primarily due to an unfavorable rate variance, offset by a favorable volume variance on loans and securities. The combined impact of these variances has led to a decrease in interest expense and flat interest income, or an increase in the Company's net interest income as compare to results one year ago.

The favorable rate variance on deposits is bolstered by the contribution from free funds. For the impact of the contribution from free funds, see the Analysis of Net Interest Margin within Table 2 below. Table 2 also illustrates how the changes in volume and rates have resulted in an increase in net interest income.

Table 1

**AVERAGE BALANCES/YIELDS AND RATES** (tax-equivalent basis) (unaudited, dollars in thousands)

The following table presents, for the periods indicated, the average earning assets and resulting yields, as well as the average interest-bearing liabilities and resulting yields, expressed in both dollars and rates. All average balances are daily average balances. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.82 percent for the three-month period ended June 30, 2012 and 3.06 percent for the same period in 2011. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.80 percent for the six-month period ended June 30, 2012 and 3.03 percent for the same period in 2011.

|  | Three Months Ended June 30, |                    |                 |                    |
|--|-----------------------------|--------------------|-----------------|--------------------|
|  | 2012                        |                    | 2011            |                    |
|  | Average Balance             | Average Yield/Rate | Average Balance | Average Yield/Rate |
| <b>Assets</b>                              |                             |                    |                 |                    |
| Loans, net of unearned interest            | \$ 5,216,477                | 4.17%              | \$ 4,723,668    | 4.68%              |
| Securities:                                |                             |                    |                 |                    |
| Taxable                                    | 4,616,169                   | 1.85               | 4,281,896       | 2.07               |
| Tax-exempt                                 | 1,830,468                   | 3.16               | 1,386,995       | 3.65               |
| Total securities                           | 6,446,637                   | 2.22               | 5,668,891       | 2.46               |
| Federal funds and resell agreements        | 24,908                      | 0.40               | 16,392          | 0.32               |
| Interest-bearing due from banks            | 432,693                     | 0.34               | 872,967         | 0.39               |
| Trading                                    | 49,789                      | 2.80               | 49,313          | 1.98               |
| Total earning assets                       | 12,170,504                  | 2.99               | 11,331,231      | 3.22               |
| Allowance for loan losses                  | (74,437)                    |                    | (72,759)        |                    |
| Other assets                               | 1,105,978                   |                    | 1,104,871       |                    |
| Total assets                               | \$ 13,202,045               |                    | \$ 12,363,343   |                    |
| <b>Liabilities and Shareholders Equity</b> |                             |                    |                 |                    |
| Interest-bearing deposits                  | \$ 6,194,126                | 0.28%              | \$ 6,307,790    | 0.39%              |
| Federal funds and repurchase agreements    | 1,450,375                   | 0.14               | 1,513,263       | 0.11               |
| Borrowed funds                             | 15,317                      | 2.44               | 37,638          | 0.75               |
| Total interest-bearing liabilities         | 7,659,818                   | 0.26               | 7,858,691       | 0.34               |
| Noninterest-bearing demand deposits        | 4,126,141                   |                    | 3,211,035       |                    |
| Other liabilities                          | 170,920                     |                    | 167,196         |                    |
| Shareholders equity                        | 1,245,166                   |                    | 1,126,421       |                    |
| Total liabilities and shareholders equity  | \$ 13,202,045               |                    | \$ 12,363,343   |                    |
| Net interest spread                        |                             | 2.73%              |                 | 2.88%              |
| Net interest margin                        |                             | 2.82               |                 | 2.98               |

|  | Six Months Ended June 30, |                       |                    |                       |
|--|---------------------------|-----------------------|--------------------|-----------------------|
|  | 2012                      |                       | 2011               |                       |
|  | Average<br>Balance        | Average<br>Yield/Rate | Average<br>Balance | Average<br>Yield/Rate |
| <b>Assets</b>                              |                           |                       |                    |                       |
| Loans, net of unearned interest            | \$ 5,134,570              | 4.24%                 | \$ 4,678,376       | 4.71%                 |
| <b>Securities:</b>                         |                           |                       |                    |                       |
| Taxable                                    | 4,479,160                 | 1.85                  | 4,285,300          | 2.09                  |
| Tax-exempt                                 | 1,797,713                 | 3.21                  | 1,356,326          | 3.74                  |
| Total securities                           | 6,276,873                 | 2.24                  | 5,641,626          | 2.49                  |
| Federal funds and resell agreements        | 22,220                    | 0.37                  | 21,128             | 0.27                  |
| Interest-bearing due from banks            | 737,853                   | 0.33                  | 1,073,415          | 0.38                  |
| Trading                                    | 50,991                    | 2.71                  | 52,055             | 2.06                  |
| Total earning assets                       | 12,222,507                | 2.96                  | 11,466,600         | 3.19                  |
| Allowance for loan losses                  | (73,416)                  |                       | (73,921)           |                       |
| Other assets                               | 1,100,889                 |                       | 1,091,142          |                       |
| Total assets                               | \$ 13,249,980             |                       | \$ 12,483,821      |                       |
| <b>Liabilities and Shareholders Equity</b> |                           |                       |                    |                       |
| Interest-bearing deposits                  | \$ 6,255,636              | 0.30%                 | \$ 6,371,292       | 0.41%                 |
| Federal funds and repurchase agreements    | 1,511,401                 | 0.13                  | 1,667,817          | 0.13                  |
| Borrowed funds                             | 16,125                    | 3.85                  | 36,830             | 1.43                  |
| Total interest-bearing liabilities         | 7,783,162                 | 0.27                  | 8,075,939          | 0.35                  |
| Noninterest-bearing demand deposits        | 4,055,613                 |                       | 3,139,381          |                       |
| Other liabilities                          | 181,845                   |                       | 167,101            |                       |
| Shareholders equity                        | 1,229,360                 |                       | 1,101,400          |                       |
| Total liabilities and shareholders equity  | \$ 13,249,980             |                       | \$ 12,483,821      |                       |
| Net interest spread                        |                           | 2.69%                 |                    | 2.84%                 |
| Net interest margin                        |                           | 2.79                  |                    | 2.94                  |

Table 2 presents the dollar amount of change in net interest income and margin due to volume and rate. Table 2 also reflects the effect that interest-free funds have on net interest margin. Although interest-free funds (total earning assets less interest-bearing liabilities) increased \$1.0 billion for the three and six-month periods ended June 30, 2012 compared to the same periods in 2011, the benefit from interest free funds decreased by 1 basis point in the three month period and remained flat in the six month period, due to decreases in interest rates.

Table 2

**ANALYSIS OF CHANGES IN NET INTEREST INCOME AND MARGIN** (unaudited, dollars in thousands)**ANALYSIS OF CHANGES IN NET INTEREST INCOME**

|   | Three Months Ended<br>June 30, 2012 vs 2011 |            |            | Six Months Ended<br>June 30, 2012 vs 2011 |             |            |
|---|---|------------|------------|---|-------------|------------|
|   | Volume                                      | Rate       | Total      | Volume                                    | Rate        | Total      |
| Change in interest earned on:                     |   |            |            |   |             |            |
| Loans   | \$ 5,009                                    | \$ (6,115) | \$ (1,106) | \$ 9,771                                  | \$ (10,811) | \$ (1,040) |
| Securities:                                       |   |            |            |   |             |            |
| Taxable   | 1,510                                       | (2,409)    | (899)      | 1,820                                     | (4,898)     | (3,078)    |
| Tax-exempt  | 3,067                                       | (1,881)    | 1,186      | 6,324                                     | (4,001)     | 2,323      |
| Federal funds sold and resell agreements          | 9   | 3          | 12         | 2   | 11          | 13         |
| Interest-bearing due from banks                   | (368)                                       | (110)      | (478)      | (541)                                     | (267)       | (808)      |
| Trading   | 3   | 84         | 87         | (7)                                       | 156         | 149        |
| Interest income                                   | 9,230                                       | (10,428)   | (1,198)    | 17,369                                    | (19,810)    | (2,441)    |
| Change in interest incurred on:                   |   |            |            |   |             |            |
| Interest-bearing deposits                         | (81)  | (1,706)    | (1,787)    | (171)                                     | (3,294)     | (3,465)    |
| Federal funds purchased and repurchase agreements | (22)  | 132        | 110        | (96)                                      | (22)        | (118)      |
| Borrowed funds                                    | (136)                                       | 159        | 23         | (397)                                     | 444         | 47         |
| Interest expense                                  | (239)                                       | (1,415)    | (1,654)    | (664)                                     | (2,872)     | (3,536)    |
| Net interest income                               | \$ 9,469                                    | \$ (9,013) | \$ 456     | \$ 18,033                                 | \$ (16,938) | \$ 1,095   |

**ANALYSIS OF NET INTEREST MARGIN**

|   | Three Months Ended June 30, |               |              | Six Months Ended June 30, |               |              |
|---|-----------------------------|---------------|--------------|---------------------------|---------------|--------------|
|   | 2012                        | 2011          | Change       | 2012                      | 2011          | Change       |
| Average earning assets                          | \$ 12,170,504               | \$ 11,331,231 | \$ 839,273   | \$ 12,222,507             | \$ 11,466,600 | \$ 755,907   |
| Average interest-bearing liabilities            | 7,659,818                   | 7,858,691     | (198,873)    | 7,783,162                 | 8,075,939     | (292,777)    |
| Average interest free funds                     | \$ 4,510,686                | \$ 3,472,540  | \$ 1,038,146 | \$ 4,439,345              | \$ 3,390,661  | \$ 1,048,684 |
| Free funds ratio (free funds to earning assets) | 37.06%                      | 30.65%        | 6.42%        | 36.32%                    | 29.57%        | 6.75%        |
| Tax-equivalent yield on earning assets          | 2.99                        | 3.22          | (0.23)%      | 2.96%                     | 3.19%         | (0.23)%      |
| Cost of interest-bearing liabilities            | 0.26                        | 0.34          | (0.08)       | 0.27                      | 0.35          | (0.08)       |
| Net interest spread                             | 2.73%                       | 2.88%         | (0.15)%      | 2.69%                     | 2.84%         | (0.15)%      |
| Benefit of interest-free funds                  | 0.09                        | 0.10          | (0.01)       | 0.10                      | 0.10          | 0.00         |
| Net interest margin                             | 2.82%                       | 2.98%         | (0.16)%      | 2.79%                     | 2.94%         | (0.15)%      |

**Provision and Allowance for Loan Losses**

The allowance for loan losses (ALL) represents management's judgment of the losses inherent in the Company's loan portfolio as of the balance sheet date. An analysis is performed quarterly to determine the appropriate balance of the ALL. This analysis considers items such as historical loss trends, a review of individual loans, migration analysis, current economic conditions, loan growth and characteristics, industry or segment concentration and other factors. This analysis is performed separately for each bank as regulatory agencies require that the adequacy of the ALL be maintained on a bank-by-bank basis. After the balance sheet analysis is performed for the ALL, the provision for loan losses is computed as the amount required to adjust the ALL to the appropriate level.

Based on the factors above, management of the Company expensed \$4.5 million and \$9.0 million related to the provision for loan losses for the three and six-month periods ended June 30, 2012, compared to \$5.6 million and \$12.7 million for the same periods in 2011. As illustrated in Table 3 below, the ALL decreased to 1.37 percent of total loans as of June 30, 2012, compared to 1.53 percent of total loans as of the same period in 2011.

Table 3 presents a summary of the Company's ALL for the six months ended June 30, 2012 and 2011 and for the year ended December 31, 2011. Net charge-offs were \$8.4 million for the first six months of 2012, compared to \$14.2 million for the same period in 2011. See Credit Risk Management under Item 3. Quantitative and Qualitative Disclosures About Market Risk in this report for information relating to nonaccrual loans, past due loans, restructured loans and other credit risk matters.

Table 3

**ANALYSIS OF ALLOWANCE FOR LOAN LOSSES** (unaudited, dollars in thousands)

|  | Six Months Ended<br>June 30, |                 | Year Ended<br>December 31, |
|--|------------------------------|-----------------|----------------------------|
|  | 2012                         | 2011            | 2011                       |
| Allowance-January 1                              | \$ 72,017                    | \$ 73,952       | \$ 73,952                  |
| Provision for loan losses                        | 9,000                        | 12,700          | 22,200                     |
| <b>Charge-offs:</b>                              |                              |                 |                            |
| Commercial                                       | (3,237)                      | (8,084)         | (12,693)                   |
| <b>Consumer:</b>                                 |                              |                 |                            |
| Credit card                                      | (5,787)                      | (7,146)         | (13,493)                   |
| Other  | (801)                        | (1,166)         | (1,945)                    |
| Real estate                                      | (408)                        | (458)           | (532)                      |
| <b>Total charge-offs</b>                         | <b>(10,233)</b>              | <b>(16,854)</b> | <b>(28,663)</b>            |
| <b>Recoveries:</b>                               |                              |                 |                            |
| Commercial                                       | 250                          | 376             | 813                        |
| <b>Consumer:</b>                                 |                              |                 |                            |
| Credit card                                      | 1,045                        | 1,433           | 2,366                      |
| Other  | 564                          | 820             | 1,317                      |
| Real estate                                      | 9                            | 15              | 32                         |
| <b>Total recoveries</b>                          | <b>1,868</b>                 | <b>2,644</b>    | <b>4,528</b>               |
| <b>Net charge-offs</b>                           | <b>(8,365)</b>               | <b>(14,210)</b> | <b>(24,135)</b>            |
| Allowance-end of period                          | 72,652                       | 72,442          | 72,017                     |
| Average loans, net of unearned interest          | \$ 5,127,382                 | \$ 4,664,252    | \$ 4,748,909               |
| Loans at end of period, net of unearned interest | 5,315,609                    | 4,731,303       | 4,960,343                  |
| Allowance to loans at end of period              | 1.37%                        | 1.53%           | 1.45%                      |
| Allowance as a multiple of net charge-offs       | 4.32x                        | 2.53x           | 2.98x                      |

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|                           |        |         |         |
|---------------------------|--------|---------|---------|
| Net charge-offs to:       |        |         |         |
| Provision for loan losses | 92.94% | 111.89% | 108.71% |
| Average loans             | 0.33   | 0.61    | 0.51    |

**Noninterest Income**

A key objective of the Company is the growth of noninterest income to enhance profitability and provide steady income. Fee-based businesses are typically non-credit related and not generally affected by fluctuations in interest rates.

The Company's fee-based businesses provide the opportunity to offer multiple products and services, which management believes will more closely align the customer with the Company. The Company is currently emphasizing fee-based businesses including trust and securities processing, bankcard, brokerage, health care services, and treasury management. Management believes it can offer these products and services both efficiently and profitably, as most share common platforms and support structures.

Table 4

**SUMMARY OF NONINTEREST INCOME** (unaudited, dollars in thousands)

|   | <b>Three Months Ended June 30,</b> |                   |                                    |                                     |
|---|------------------------------------|-------------------|------------------------------------|-------------------------------------|
|   | <b>2012</b>                        | <b>2011</b>       | <b>Dollar<br/>Change<br/>12-11</b> | <b>Percent<br/>Change<br/>12-11</b> |
| Trust and securities processing                         | \$ 55,755                          | \$ 53,635         | \$ 2,120                           | 3.95%                               |
| Trading and investment banking                          | 7,140                              | 6,478             | 662                                | 10.22                               |
| Service charges on deposit accounts                     | 19,009                             | 18,181            | 828                                | 4.55                                |
| Insurance fees and commissions                          | 913                                | 1,165             | (252)                              | (21.63)                             |
| Brokerage fees  | 2,705                              | 2,573             | 132                                | 5.13                                |
| Bankcard fees   | 16,830                             | 16,545            | 285                                | 1.72                                |
| Gains on sales of securities available for sale,<br>net | 3,222                              | 6,023             | (2,801)                            | (46.51)                             |
| Other   | 4,652                              | 3,256             | 1,396                              | 42.87                               |
| <b>Total noninterest income</b>                         | <b>\$ 110,226</b>                  | <b>\$ 107,856</b> | <b>\$ 2,370</b>                    | <b>2.20%</b>                        |

|   | <b>Six Months Ended June 30,</b> |                   |                                    |                                     |
|---|----------------------------------|-------------------|------------------------------------|-------------------------------------|
|   | <b>2012</b>                      | <b>2011</b>       | <b>Dollar<br/>Change<br/>12-11</b> | <b>Percent<br/>Change<br/>12-11</b> |
| Trust and securities processing                         | \$ 110,465                       | \$ 105,363        | \$ 5,102                           | 4.84%                               |
| Trading and investment banking                          | 16,818                           | 15,497            | 1,321                              | 8.52                                |
| Service charges on deposits                             | 39,020                           | 36,789            | 2,231                              | 6.06                                |
| Insurance fees and commissions                          | 1,922                            | 2,368             | (446)                              | (18.83)                             |
| Brokerage fees  | 5,219                            | 4,914             | 305                                | 6.21                                |
| Bankcard fees   | 31,565                           | 30,987            | 578                                | 1.87                                |
| Gains on sales of securities available for sale,<br>net | 19,763                           | 13,480            | 6,283                              | 46.61                               |
| Other   | 17,755                           | 6,208             | 11,547                             | >100.00                             |
| <b>Total noninterest income</b>                         | <b>\$ 242,527</b>                | <b>\$ 215,606</b> | <b>\$ 26,921</b>                   | <b>12.49%</b>                       |

Fee-based, or noninterest income (summarized in Table 4), increased by \$2.4 million, or 2.2 percent, during the three months ended June 30, 2012, and increased by \$26.9 million, or 12.5 percent, during the six months ended June 30, 2012, compared to the same periods in 2011.

Trust and securities processing consists of fees earned on personal and corporate trust accounts, custody of securities services, trust investments and money management services, and servicing of mutual fund assets. The increase in these fees for the three and six-month periods compared to the same periods last year was primarily due to changes in the following three categories of income. Advisory fee income from the Scout

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Funds for the three and six-month periods ended June 30, 2012, increased by \$1.2 million, or 7.1 percent, and by \$2.0 million, or 6.3 percent, respectively. Fund administration and custody services fees for the three and six-month periods ended June 30, 2012, increased by \$0.5 million, or 2.9 percent, and \$1.9 million, or 5.5 percent, respectively. Institutional and



personal investment management services fees for the three and six-month periods ended June 30, 2012, increased by \$0.6 million, or 3.5 percent, and \$1.5 million, or 4.5 percent, respectively. Trust and securities processing fees are primarily asset-based. As such, they are highly correlated to the change in market value of the assets. Thus, the related income for the remainder of the year will be affected by changes in the securities markets. Management continues to emphasize sales of services to both new and existing clients as well as increasing and improving the distribution channels.

During the three and six-month periods ended June 30, 2012, \$3.2 million and \$19.8 million in pre-tax gains were recognized on the sales of securities available for sale.

### Noninterest Expense

The components of noninterest expense are shown below on Table 5.

Table 5

#### SUMMARY OF NONINTEREST EXPENSE (unaudited in thousands)

|   | Three Months Ended June 30, |                   |                     |                      |
|---|-----------------------------|-------------------|---------------------|----------------------|
|   | 2012                        | 2011              | Dollar Change 12-11 | Percent Change 12-11 |
| Salaries and employee benefits          | \$ 78,001                   | \$ 72,922         | \$ 5,079            | 6.96%                |
| Occupancy, net                          | 9,211                       | 9,579             | (368)               | (3.84)               |
| Equipment                               | 11,004                      | 10,774            | 230                 | 2.13                 |
| Supplies and services                   | 5,218                       | 5,577             | (359)               | (6.44)               |
| Marketing and business development      | 5,986                       | 5,158             | 828                 | 16.05                |
| Processing fees                         | 12,593                      | 13,319            | (726)               | (5.45)               |
| Legal and consulting                    | 4,012                       | 4,075             | (63)                | (1.55)               |
| Bankcard                                | 4,630                       | 4,219             | 411                 | 9.74                 |
| Amortization of other intangible assets | 3,733                       | 4,159             | (426)               | (10.24)              |
| Regulatory fees                         | 2,314                       | 2,394             | (80)                | (3.34)               |
| Class action litigation settlement      |                             | 7,800             | (7,800)             | (100.00)             |
| Other                                   | 7,984                       | 5,605             | 2,379               | 42.44                |
| <b>Total noninterest expense</b>        | <b>\$ 144,686</b>           | <b>\$ 145,581</b> | <b>\$ (895)</b>     | <b>(0.61)%</b>       |

|   | Six Months Ended June 30, |            |                     |                      |
|---|---------------------------|------------|---------------------|----------------------|
|   | 2012                      | 2011       | Dollar Change 12-11 | Percent Change 12-11 |
| Salaries and employee benefits          | \$ 157,915                | \$ 145,821 | \$ 12,094           | 8.29%                |
| Occupancy, net                          | 18,489                    | 19,184     | (695)               | (3.62)               |
| Equipment                               | 21,669                    | 21,710     | (41)                | (0.19)               |
| Supplies and services                   | 10,261                    | 11,157     | (896)               | (8.03)               |
| Marketing and business development      | 10,246                    | 9,280      | 966                 | 10.41                |
| Processing fees                         | 25,409                    | 25,492     | (83)                | (0.33)               |
| Legal and consulting                    | 7,527                     | 6,692      | 835                 | 12.48                |
| Bankcard                                | 8,872                     | 8,072      | 800                 | 9.91                 |
| Amortization of other intangible assets | 7,585                     | 8,165      | (580)               | (7.10)               |
| Regulatory fees                         | 4,733                     | 6,111      | (1,378)             | (22.55)              |
| Class action litigation settlement      |                           | 7,800      | (7,800)             | (100.00)             |
| Other                                   | 13,884                    | 11,613     | 2,271               | 19.56                |

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|                           |    |         |    |         |    |       |       |
|---------------------------|----|---------|----|---------|----|-------|-------|
| Total noninterest expense | \$ | 286,590 | \$ | 281,097 | \$ | 5,493 | 1.95% |
|---------------------------|----|---------|----|---------|----|-------|-------|

Noninterest expense decreased by \$0.9 million, or 0.6 percent, for the three months ended June 30, 2012, and increased by \$5.5 million, or 2.0 percent, for the six months ended June 30, 2012, compared to the same period in 2011. Table 5 above summarizes the components of noninterest expense and the respective year-over-year comparison for each category.

Salaries and employee benefits increased by \$5.1 million, or 7.0 percent, for the three months ended June 30, 2012, and by \$12.1 million, or 8.3 percent, for the six months ended June 30, 2012, compared to the same period in 2011. These increases are primarily due to higher base salary and benefits expense. Salaries increased by \$3.6 million, or 7.8 percent, and \$7.6 million, or 8.5 percent, for the three and six months ended June 30, 2012, compared to the same periods in 2011. Employee benefits expense increased by \$1.4 million, or 13.4 percent, and \$2.7 million, or 10.8 percent, for the three and six months ended June 30, 2012, compared to the same periods in 2011.

During the second quarter of 2011, the Company and its subsidiaries, UMB Bank, n.a., UMB Bank Colorado, n.a., UMB Bank Arizona, n.a., and UMB National Bank of America entered into an agreement to settle a class action lawsuit, filed in Missouri, in November 2010 and amended in May 2011, arising from the Company's consumer personal deposit account posting practices, which allegedly resulted in excessive overdraft fees in violation of Missouri's consumer protection statute and the account agreement. While admitting no wrongdoing, in order to fully and finally resolve the litigation and avoid any further expense and distraction caused by the litigation, the Company established a \$7.8 million escrow fund in accordance with this agreement.

### Income Tax Expense

The effective tax rate is 29.0 percent for the six months ended June 30, 2012, compared to 28.7 percent for the same period in 2011. The slight increase in the effective rate for 2012 is primarily attributable to an increase in the state marginal tax rate.

### Strategic Lines of Business

Table 6

#### Bank Operating Results (unaudited, dollars in thousands)

|                           | Three Months Ended June 30, |           |                     |                      |
|---------------------------|-----------------------------|-----------|---------------------|----------------------|
|                           | 2012                        | 2011      | Dollar Change 12-11 | Percent Change 12-11 |
| Net interest income       | \$ 69,447                   | \$ 68,999 | \$ 448              | 0.65%                |
| Provision for loan losses | 2,281                       | 2,868     | (587)               | (20.47)              |
| Noninterest income        | 50,574                      | 52,674    | (2,100)             | (3.99)               |
| Noninterest expense       | 94,626                      | 97,205    | (2,579)             | (2.65)               |
| Income before taxes       | 23,114                      | 21,600    | 1,514               | 7.01                 |
| Income tax expense        | 6,411                       | 6,141     | 270                 | 4.40                 |
| Net income                | \$ 16,703                   | \$ 15,459 | \$ 1,244            | 8.05%                |

|                           | Six Months Ended June 30, |            |                     |                      |
|---------------------------|---------------------------|------------|---------------------|----------------------|
|                           | 2012                      | 2011       | Dollar Change 12-11 | Percent Change 12-11 |
| Net interest income       | \$ 137,499                | \$ 136,560 | \$ 939              | 0.69%                |
| Provision for loan losses | 4,256                     | 6,975      | (2,719)             | (38.98)              |
| Noninterest income        | 121,029                   | 109,663    | 11,366              | 10.36                |
| Noninterest expense       | 188,117                   | 188,876    | (759)               | (0.40)               |
| Income before taxes       | 66,155                    | 50,372     | 15,783              | 31.33                |
| Income tax expense        | 18,406                    | 14,284     | 4,122               | 28.86                |

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|            |           |           |           |        |
|------------|-----------|-----------|-----------|--------|
| Net income | \$ 47,749 | \$ 36,088 | \$ 11,661 | 32.31% |
|------------|-----------|-----------|-----------|--------|

Bank's net income increased by \$11.7 million, or 32.3 percent, to \$47.7 million compared to the prior year. This increase was driven by increased noninterest income, a decrease in provision for loan losses, and a slight decrease in noninterest expense. Noninterest income increased \$11.4 million, or 10.4 percent, over the same period in 2011. A gain of \$19.8 million was recognized in 2012 compared to \$13.5 million in 2011. Miscellaneous income increased \$5.7 million due to a \$2.5 million adjustment in contingent consideration liabilities on acquisitions due to new accounting guidance and a \$0.6 million gain on the sale of a corporate trust portfolio. An increase of \$1.1 million in deposit service charges and an increase of \$1.3 million within bond trading contributed to the increase in noninterest income. These increases were offset by a decrease in consumer card services income of \$3.2 million driven by the impact of the Durbin amendment on interchange income. Provision decreased by \$2.7 million, or 39.0 percent, due to a reduction in the inherent risk in the loan portfolio in this segment. Net interest income increased 0.7 percent to \$137.5 million from the same period in 2011. Average loans increased \$484.7 million, or 11.7 percent, from 2011. Average investment security balances increased by \$641.4 million and average deposits increased by \$814.6 million compared to 2011. These balance increases offset the effect of a declining net interest margin driven by a reduction in yields within the loan and investment portfolio, resulting in the slight increase in net interest income. Noninterest expense decreased 0.4 percent to \$188.1 million from the first half of 2011. Noninterest expense decrease is attributable to the \$7.8 million overdraft class action lawsuit settlement recorded in 2011, offset by increased salaries and benefits expenses of \$0.6 million.

Table 7

**Payment Solutions Operating Results** (unaudited, dollars in thousands)

|                           | Three Months Ended June 30, |           |                           |                            |
|---------------------------|-----------------------------|-----------|---------------------------|----------------------------|
|                           | 2012                        | 2011      | Dollar<br>Change<br>12-11 | Percent<br>Change<br>12-11 |
| Net interest income       | \$ 10,558                   | \$ 10,440 | \$ 118                    | 1.13%                      |
| Provision for loan losses | 2,219                       | 2,732     | (513)                     | (18.78)                    |
| Noninterest income        | 17,172                      | 14,778    | 2,394                     | 16.20                      |
| Noninterest expense       | 16,513                      | 14,611    | 1,902                     | 13.02                      |
| Income before taxes       | 8,998                       | 7,875     | 1,123                     | 14.26                      |
| Income tax expense        | 2,817                       | 2,159     | 658                       | 30.48                      |
| Net income                | \$ 6,181                    | \$ 5,716  | \$ 465                    | 8.14%                      |

|                           | Six Months Ended June 30, |           |                           |                            |
|---------------------------|---------------------------|-----------|---------------------------|----------------------------|
|                           | 2012                      | 2011      | Dollar<br>Change<br>12-11 | Percent<br>Change<br>12-11 |
| Net interest income       | \$ 21,282                 | \$ 20,869 | \$ 413                    | 1.98%                      |
| Provision for loan losses | 4,744                     | 5,725     | (981)                     | (17.14)                    |
| Noninterest income        | 32,743                    | 27,753    | 4,990                     | 17.98                      |
| Noninterest expense       | 31,339                    | 27,935    | 3,404                     | 12.19                      |
| Income before taxes       | 17,942                    | 14,962    | 2,980                     | 19.92                      |
| Income tax expense        | 5,491                     | 4,490     | 1,001                     | 22.29                      |
| Net income                | \$ 12,451                 | \$ 10,472 | \$ 1,979                  | 18.90%                     |

Payments Solutions net income after taxes increased \$2.0 million, or 18.9 percent, to \$12.5 million from the prior year. Noninterest income increased \$5.0 million, or 18.0 percent, driven by a \$3.8 million increase in cards services income due to increased sales volume for commercial card, retail credit card, and healthcare services. There was also an additional \$1.1 million increase in deposit service charge income from institutional cash management and healthcare services customers driven from new business growth. Noninterest expense increased by \$3.4 million, primarily from increased staffing, consulting and legal fees, and in bankcard processing fees associated with the increase in sales volume. Provision expense decreased by \$1.0 million, or 17.1 percent. Net interest margin increased by \$0.4 million, or 2.0 percent, due to growth in earning assets, which was offset by a reduction in funds transfer pricing credit on deposits.



Table 8

**Institutional Investment Management Operating Results** (unaudited, dollars in thousands)

|                           | Three Months Ended June 30, |          |                     |                      |
|---------------------------|-----------------------------|----------|---------------------|----------------------|
|                           | 2012                        | 2011     | Dollar Change 12-11 | Percent Change 12-11 |
| Net interest income       | \$ 1                        | \$ 11    | \$ (10)             | (90.91)%             |
| Provision for loan losses |                             |          |                     |                      |
| Noninterest income        | 23,671                      | 22,157   | 1,514               | 6.83                 |
| Noninterest expense       | 16,271                      | 17,366   | (1,095)             | (6.31)               |
| Income before taxes       | 7,401                       | 4,802    | 2,599               | 54.12                |
| Income tax expense        | 2,167                       | 1,185    | 982                 | 82.87                |
| Net income                | \$ 5,234                    | \$ 3,617 | \$ 1,617            | 44.71%               |

|                           | Six Months Ended June 30, |          |                     |                      |
|---------------------------|---------------------------|----------|---------------------|----------------------|
|                           | 2012                      | 2011     | Dollar Change 12-11 | Percent Change 12-11 |
| Net interest income       | \$ 3                      | \$ 14    | \$ (11)             | (78.57)%             |
| Provision for loan losses |                           |          |                     |                      |
| Noninterest income        | 49,798                    | 42,563   | 7,235               | 17.00                |
| Noninterest expense       | 33,192                    | 32,546   | 646                 | 1.98                 |
| Income before taxes       | 16,609                    | 10,031   | 6,578               | 65.58                |
| Income tax expense        | 4,800                     | 2,515    | 2,285               | 90.85                |
| Net income                | \$ 11,809                 | \$ 7,516 | \$ 4,293            | 57.12%               |

Institutional Investment Management net income increased \$4.3 million, or 57.1 percent, to \$11.8 million compared to the prior year. This increase is due to increased noninterest income offset by increased noninterest expense. Noninterest income increased \$7.2 million, or 17.0 percent, to \$49.8 million primarily related to a \$4.3 million adjustment in contingent consideration liabilities on acquisitions due to new accounting guidance and a \$2.9 million increase in advisory fees. Advisory fee income increased due to increased asset values during the six month period ended June 30, 2012. Noninterest expense increased \$0.6 million, or 2.0 percent, to \$33.2 million compared to the prior year due to a \$1.0 million increase from a contingent consideration liability adjustment related to cash flow estimate changes on acquisitions. There was also a \$0.3 million increase in amortization expense related to the acquisition during the second quarter of 2011 of the Frontegra Funds. These amounts were offset by a decrease of \$0.7 million in salaries and benefits expenses.

Table 9

**Asset Servicing Operating Results** (unaudited, dollars in thousands)

|                           | Three Months Ended June 30, |        |                     |                      |
|---------------------------|-----------------------------|--------|---------------------|----------------------|
|                           | 2012                        | 2011   | Dollar Change 12-11 | Percent Change 12-11 |
| Net interest income       | \$ 367                      | \$ 468 | \$ (101)            | (21.58)%             |
| Provision for loan losses |                             |        |                     |                      |
| Noninterest income        | 18,809                      | 18,247 | 562                 | 3.08                 |

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|                     |          |          |          |          |
|---------------------|----------|----------|----------|----------|
| Noninterest expense | 17,276   | 16,399   | 877      | 5.35     |
| Income before taxes | 1,900    | 2,316    | (416)    | (17.96)  |
| Income tax expense  | 853      | 787      | 66       | 8.39     |
| Net income          | \$ 1,047 | \$ 1,529 | \$ (482) | (31.52)% |



|                           | Six Months Ended June 30, |          |                     |                      |
|---------------------------|---------------------------|----------|---------------------|----------------------|
|                           | 2012                      | 2011     | Dollar Change 12-11 | Percent Change 12-11 |
| Net interest income       | \$ 678                    | \$ 923   | \$ (245)            | (26.54)%             |
| Provision for loan losses |                           |          |                     |                      |
| Noninterest income        | 38,957                    | 35,627   | 3,330               | 9.35                 |
| Noninterest expense       | 33,942                    | 31,740   | 2,202               | 6.94                 |
| Income before taxes       | 5,693                     | 4,810    | 883                 | 18.36                |
| Income tax expense        | 2,170                     | 1,695    | 475                 | 28.02                |
| Net income                | \$ 3,523                  | \$ 3,115 | \$ 408              | 13.10%               |

Asset Servicing net income increased \$0.4 million, or 13.1 percent, to \$3.5 million from the same period last year. Noninterest income increased \$3.3 million, or 9.4 percent, driven by a \$2.0 million increase due to new business added in fund administration, transfer agent and alternative investments services and a contingent consideration liability adjustment related to cash flow estimate adjustments and new accounting guidance of \$1.3 million. Net interest margin declined slightly by \$0.2 million, or 26.5 percent, due to a decline in average deposits of 13.2 percent and an overall decrease in deposit funds transfer credit. Noninterest expense increased \$2.2 million, or 6.9 percent, primarily from additional staffing to support new business.

### Balance Sheet Analysis

Total assets of the Company as of June 30, 2012 decreased \$358.7 million, or 2.6 percent, compared to December 31, 2011 and increased \$412.1 million, or 3.2 percent, compared to June 30, 2011. The increase in total assets from June 2011 to June 2012 is a result an increase in investment securities balances including trading securities of \$859.0 million, or 15.2 percent, and an increase in loans of \$584.3 million, or 12.4 percent, offset by a decrease in due from Federal Reserve balances of \$999.9 million, or 80.7 percent. The decrease in total assets from December to June is primarily result of decreased due from Federal Reserve balances of \$774.5 million, or 76.5 percent, offset by an increase in investment securities balances including trading securities of \$227.0 million, or 3.6 percent, and an increase in loans of \$355.3 million, or 7.2 percent. The overall increase in total assets compared to June 30, 2011 is directly related to a corresponding increase in deposit balances of 416.0 million, or 4.2 percent. The decrease in total assets from December 2011 to June 2012 is due to a decrease in federal funds purchased and securities sold under agreement to repurchase of \$550.3 million, or 28.2 percent, due to the run-off of seasonal public fund tax deposits, as such tax deposits are generally higher around the end of the calendar year.

Table 10

### SELECTED BALANCE SHEET INFORMATION (unaudited, dollars in thousands)

|                                 | June 30,      |               | December 31,  |
|---------------------------------|---------------|---------------|---------------|
|                                 | 2012          | 2011          | 2011          |
| Total assets                    | \$ 13,182,662 | \$ 12,770,576 | \$ 13,541,398 |
| Loans, net of unearned interest | 5,315,609     | 4,731,303     | 4,960,343     |
| Total investment securities     | 6,504,523     | 5,645,483     | 6,277,482     |
| Interest-bearing due from banks | 295,499       | 1,371,431     | 1,164,007     |
| Total earning assets            | 12,084,739    | 11,726,842    | 12,406,108    |
| Total deposits                  | 10,329,850    | 9,913,801     | 10,169,911    |
| Total borrowed funds            | 1,415,826     | 1,537,206     | 1,969,356     |

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## Loans and Loans Held For Sale

Loans represent the Company's largest source of interest income. In addition to growing the commercial loan portfolio, management believes its middle market commercial business and its consumer business, including home equity and credit card loan products, are the market niches that represent its best opportunity to cross-sell fee-related services.

Total loan balances have increased \$355.3 million, or 7.2 percent, compared to December 31, 2011 and increased \$584.3 million, or 12.4 percent, at June 30, 2012 compared to June 30, 2011. The increase from December 31, 2011 is primarily a result of a \$401.1 million, or 17.9 percent, increase in commercial loans and a \$25.7 million, or 4.8 percent, increase in home equity loans, offset by a decrease of \$42.1 million, or 3.0 percent, in commercial real estate loans and a \$41.1 million, or 43.4 percent, decrease in consumer loans. Compared to June 30, 2011, commercial loans increased \$623.0 million, or 31.0 percent, and home equity loans increased \$55.8 million, or 11.1 percent. These increases are offset by a decrease in real estate construction loans of \$50.7 million, or 38.3 percent, and a decrease in consumer loans of \$74.7 million, or 58.3 percent.

Nonaccrual, past due and restructured loans are discussed under "Credit Risk Management" within "Item 3. Quantitative and Qualitative Disclosures About Market Risk" in this report.

## Investment Securities

The Company's securities portfolio provides liquidity as a result of the composition and average life of the underlying securities. This liquidity can be used to fund loan growth or to offset the outflow of traditional funding sources. In addition to providing a potential source of liquidity, the securities portfolio can be used as a tool to manage interest rate sensitivity. The Company's goal in the management of its securities portfolio is to maximize return within the Company's parameters of liquidity goals, interest rate risk and credit risk. The Company maintains strong liquidity levels while investing in only high-grade securities. The securities portfolio generates the Company's second largest component of interest income.

Investment securities totaled \$6.5 billion at June 30, 2012, compared to \$5.6 billion at June 30, 2011, and \$6.3 billion at December 31, 2011. Collateral pledging requirements for public funds, loan demand, and deposit funding are the primary factors impacting changes in the level of security holdings. Investment securities comprised 53.8 percent, 50.6 percent, and 48.1 percent, respectively, of the earning assets as of June 30, 2012, December 31, 2011, and June 30, 2011. There were \$4.4 billion of these securities pledged to secure U.S. Government deposits, other public deposits, certain trust deposits, and other potential borrowings as required by law at June 30, 2012.

Investment securities had an average tax-equivalent yield of 2.24 percent for the first six months of 2012 compared to 2.49 percent for the same period in 2011, or a decrease of 25 basis points. The average life of the securities portfolio was 35.5 months at June 30, 2012 compared to 32.8 months at December 31, 2011 and 34.9 months at June 30, 2011. The increase in average life from June 30, 2011 and December 31, 2011 was primarily related to an increase in the percentage of investments invested in the core portfolio resulting in a lower percentage of short term investments held compared to the same period last year due to excess liquidity being retained in the continued low rate environment.

## Deposits and Borrowed Funds

Deposits increased \$159.9 million, or 1.6 percent, from December 31, 2011 to June 30, 2012 and increased \$416.0 million, or 4.2 percent, from June 30, 2011. Noninterest-bearing deposits increased \$276.1 million offset by decreased interest-bearing deposits of \$116.2 million from December 31, 2011. Noninterest-bearing deposits increased \$398.9 million and interest-bearing deposits increased \$17.1 million from June 30, 2011. The increase in noninterest-bearing deposits from June 30, 2011 and December 31, 2011 came primarily from our public funds, mutual fund processing and treasury management businesses. The increase in interest-bearing deposits compared to June 30, 2011 is primarily related to increases in money market accounts.

Deposits represent the Company's primary funding source for its asset base. In addition to the core deposits garnered by the Company's retail branch structure, the Company continues to focus on its cash management services, as well as its trust and mutual fund services in order to attract and retain additional core deposits. Management believes a strong core deposit composition is one of the Company's key strengths given its competitive product mix.

Borrowed funds decreased \$553.5 million from December 31, 2011. Borrowed funds are typically higher at year end due to repurchase agreements related to public funds. Borrowings, other than repurchase agreements, are a function of the source and use of funds and will fluctuate to cover short term gaps in funding. Borrowed funds decreased \$121.4 million from June 30, 2011.

Federal funds purchased and securities sold under agreement to repurchase totaled \$1.4 billion at June 30, 2012, compared to \$2.0 billion at December 31, 2011 and \$1.5 billion at June 30, 2011. Repurchase agreements are transactions involving the exchange of investment funds by the customer for securities by the Company under an agreement to repurchase the same or similar issues at an agreed-upon price and date.

### **Capital and Liquidity**

The Company places a significant emphasis on the maintenance of a strong capital position, which promotes investor confidence, provides access to funding sources under favorable terms, and enhances the Company's ability to capitalize on business growth and acquisition opportunities. Higher levels of liquidity, however, bear corresponding costs, measured in terms of lower yields on short-term, more liquid earning assets and higher expenses for extended liability maturities. The Company manages capital for each subsidiary based upon the subsidiary's respective risks and growth opportunities as well as regulatory requirements.

Total shareholders' equity was \$1.3 billion at June 30, 2012, a \$60.9 million increase compared to December 31, 2011. The Company's Board of Directors authorized, at its April 24, 2012, April 27, 2011, and April 26, 2010 meetings, the repurchase of up to two million shares of the Company's common stock during the twelve months following the meetings. During the six months ended June 30, 2012 and 2011, the Company acquired 120,455 shares and 82,032 shares, respectively, of its common stock under these plans. The Company has not made any purchases other than through these plans.

On July 24, 2012, the Board of Directors declared a dividend of \$0.205 per share. The dividend will be paid on October 1, 2012 to shareholders of record on September 10, 2012.

Risk-based capital guidelines established by regulatory agencies set minimum capital standards based on the level of risk associated with a financial institution's assets. A financial institution's total capital is required to equal at least 8 percent of risk-weighted assets. At least half of that 8 percent must consist of Tier 1 core capital, and the remainder may be Tier 2 supplementary capital. The risk-based capital guidelines indicate the specific risk weightings by type of asset. Certain off-balance-sheet items (such as standby letters of credit and binding loan commitments) are multiplied by credit conversion factors to translate them into balance sheet equivalents before assigning them specific risk weightings. Due to the Company's high level of core capital and substantial portion of earning assets invested in government securities, the Tier 1 capital ratio of 11.63 percent and total capital ratio of 12.59 percent substantially exceed the regulatory minimums.

For further discussion of capital and liquidity, see **Liquidity Risk** under **Item 3. Quantitative and Qualitative Disclosures About Market Risk** in this report.

Table 11

The Company's capital position is summarized in the table below and exceeds regulatory requirements:

| RATIOS                          | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|---------------------------------|--------------------------------|-------|------------------------------|-------|
|                                 | 2012                           | 2011  | 2012                         | 2011  |
| Return on average assets        | 0.89%                          | 0.85% | 1.15%                        | 0.92% |
| Return on average equity        | 9.42                           | 9.37  | 12.36                        | 10.47 |
| Average equity to assets        | 9.43                           | 9.11  | 9.28                         | 8.82  |
| Tier 1 risk-based capital ratio | 11.63                          | 11.54 | 11.63                        | 11.54 |
| Total risk-based capital ratio  | 12.59                          | 12.63 | 12.59                        | 12.63 |
| Leverage ratio                  | 6.92                           | 6.48  | 6.92                         | 6.48  |

The Company's per share data is summarized in the table below.

| Per Share Data        | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|-----------------------|--------------------------------|----------|------------------------------|----------|
|                       | 2012                           | 2011     | 2012                         | 2011     |
| Earnings basic        | \$ 0.73                        | \$ 0.66  | \$ 1.89                      | \$ 1.43  |
| Earnings diluted      | 0.72                           | 0.65     | 1.87                         | 1.42     |
| Cash dividends        | 0.205                          | 0.195    | 0.410                        | 0.390    |
| Dividend payout ratio | 28.08%                         | 29.55%   | 21.69%                       | 27.27%   |
| Book value            | \$ 30.89                       | \$ 27.97 | \$ 30.89                     | \$ 27.97 |

#### Off-balance Sheet Arrangements

The Company's main off-balance sheet arrangements are loan commitments, commercial and standby letters of credit, futures contracts and forward exchange contracts, which have maturity dates rather than payment due dates. Please see Note 7, **Commitments, Contingencies and Guarantees** in the Notes to Condensed Consolidated Financial Statements for detailed information on these arrangements.

#### Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to allowance for loan losses, investments, long-lived assets, contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which have formed the basis for making such judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the recorded estimates under different assumptions or conditions. A summary of critical accounting policies is listed in the **Management's Discussion and Analysis of Financial Condition and Results of Operations** section of the Company's Annual Report Form 10-K for the fiscal year ended December 31, 2011.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Risk Management

Market risk is a broad term for the risk of economic loss due to adverse changes in the fair value of financial instruments. These changes may be the result of various factors, including interest rates, foreign exchange prices, commodity prices or equity prices. Financial instruments that are subject to market risk can be classified either as held for trading or held for purposes other than trading.

The Company is subject to market risk primarily through the effect of changes in interest rates of its assets held for purposes other than trading. The following discussion of interest rate risk, however, combines instruments held for trading and instruments held for purposes other than trading, because the instruments held for trading represent such a small portion of the Company's portfolio that the interest rate risk associated with them is immaterial.

#### Interest Rate Risk

In the banking industry, a major risk exposure is changing interest rates. To minimize the effect of interest rate changes to net interest income and exposure levels to economic losses, the Company manages its exposure to changes in interest rates through asset and liability management within guidelines established by its Funds Management Committee ( FMC ) and approved by the Company's Board of Directors. The FMC has the responsibility for approving and ensuring compliance with asset/liability management policies, including interest rate exposure. The Company's primary method for measuring and analyzing consolidated interest rate risk is the Net Interest Income Simulation Analysis. The Company also uses a Net Portfolio Value model to measure market value risk under various rate change scenarios and a gap analysis to measure maturity and repricing relationships between interest-earning assets and interest-bearing liabilities at specific points in time. On a limited basis, the Company uses hedges or swaps to manage interest rate risk by using futures contracts on certain loans and trading securities.

Overall, the Company manages interest rate risk by positioning the balance sheet to maximize net interest income while maintaining an acceptable level of interest rate and credit risk, remaining mindful of the relationship among profitability, liquidity, interest rate risk and credit risk.

#### Net Interest Income Modeling

The Company's primary interest rate risk tool, the Net Interest Income Simulation Analysis, measures interest rate risk and the effect of interest rate changes on net interest income and net interest margin. This analysis incorporates substantially all of the Company's assets and liabilities together with forecasted changes in the balance sheet and assumptions that reflect the current interest rate environment. Through these simulations, management estimates the impact on net interest income of a 300 basis point upward and a 100 basis point downward gradual change of market interest rates over a one year period. Assumptions are made to project rates for new loans and deposits based on historical analysis, management outlook, and repricing strategies. Asset prepayments and other market risks are developed from industry estimates of prepayment speeds and other market changes. Since the results of these simulations can be significantly influenced by assumptions utilized, management evaluates the sensitivity of the simulation results to changes in assumptions.

Table 12 shows the net interest income increase or decrease over the next twelve months as of June 30, 2012 and 2011 based on hypothetical changes in interest rates.

Table 12

**MARKET RISK** (unaudited, dollars in thousands)

| Hypothetical change<br>in interest rate | June 30, 2012    | June 30, 2011    |
|---|------------------|------------------|
| (Rates in Basis Points)                 | Amount of change | Amount of change |
| 300                                     | \$15,617         | \$17,436         |
| 200                                     | 9,866            | 11,458           |
| 100                                     | 4,612            | 6,175            |
| Static                                  |                  |                  |
| (100)                                   | N/A              | N/A              |

The Company is sensitive at June 30, 2012 to increases in rates. Increases in interest rates are projected to cause increases in net interest income. Due to the already low interest rate environment, the Company did not include a 100 basis point falling scenario. There is little room for projected yields on liabilities to decrease. For projected increases in rates, net interest income is projected to increase due to the Company being positioned to adjust yields on assets with changes in market rates more than the cost of paying liabilities is projected to increase. Nevertheless, the Company is positioned in the current low rate environment to be relatively neutral to further interest rate changes over the next twelve months. If rates remain flat the Company will be exposed to the risk of asset yields continuing to decrease while deposit costs remain relatively flat.

**Trading Account**

The Company's subsidiary UMB Bank, n.a. carries taxable government securities in a trading account that is maintained according to a board-approved policy and relevant procedures. The policy limits the amount and type of securities that UMB Bank, n.a. can carry in the trading account and also requires that UMB Bank, n.a. comply with any limits under applicable law and regulations. The policy also mandates the use of a value at risk methodology to manage price volatility risks within financial parameters. The risk associated with carrying trading securities is offset by the sale of exchange traded futures contracts, with both the trading account and futures contracts marked to market daily. This account had a balance of \$56.8 million as of June 30, 2012 compared to \$58.1 million as of December 31, 2011.

Documentation of the methodology used in determining value at risk is maintained and reviewed in compliance banking laws and regulations. The aggregate value at risk is reviewed quarterly. The aggregate value at risk in the trading account was insignificant as of June 30, 2012 and December 31, 2011.

**Other Market Risk**

The Company does not have material commodity price risks or derivative risks. The Company does have minimal foreign currency risk as a result of foreign exchange contracts. See Note 7 Commitments, Contingencies and Guarantees in the notes to the Condensed Consolidated Financial Statements.

**Credit Risk Management**

Credit risk represents the risk that a customer may not perform in accordance with contractual terms. Credit risk is inherent in the financial services business and results from extending credit to customers. The Company utilizes a centralized credit administration function, which provides information on affiliate bank risk levels, delinquencies, an internal ranking system and overall credit exposure. In addition, the Company centrally reviews loan requests to ensure the consistent application of the loan policy and standards. The Company has an internal loan review staff that operates independently of the affiliate banks. This review team performs periodic examinations of each bank's loans for credit quality, documentation and loan administration. The respective regulatory authority of each affiliate bank also reviews loan portfolios.

A primary indicator of credit quality and risk management is the level of nonperforming loans. Nonperforming loans include both nonaccrual loans and restructured loans. The Company's nonperforming loans increased \$15.2 million to \$30.6 million at June 30, 2012, compared to June 30, 2011 and increased \$5.0 million, compared to December 31, 2011.



The Company had \$6.0 million of other real estate owned as of June 30, 2012 compared to \$6.7 million as of June 30, 2011 and \$6.0 million as of December 31, 2011. Loans past due more than 90 days totaled \$6.2 million as of June 30, 2012, compared to \$7.4 million at June 30, 2011 and \$6.0 million as of December 31, 2011.

A loan is generally placed on nonaccrual status when payments are past due 90 days or more and/or when management has considerable doubt about the borrower's ability to repay on the terms originally contracted. The accrual of interest is discontinued and recorded thereafter only when actually received in cash.

Certain loans are restructured to provide a reduction or deferral of interest or principal due to deterioration in the financial condition of the respective borrowers. The Company had \$8.3 million of restructured loans at June 30, 2012, \$0.1 million at June 30, 2011 and \$6.0 million at December 31, 2011.

Table 13

**LOAN QUALITY** (unaudited, dollars in thousands)

|   | June 30,<br>2012 | June 30,<br>2011 | December 31,<br>2011 |
|---|------------------|------------------|----------------------|
| Nonaccrual loans  | \$ 24,867        | \$ 15,284        | \$ 22,650            |
| Restructured loans  | 5,775            | 99               | 2,931                |
| <b>Total nonperforming loans</b>  | <b>30,642</b>    | <b>15,383</b>    | <b>25,581</b>        |
| Other real estate owned   | 5,954            | 6,696            | 5,959                |
| <b>Total nonperforming assets</b>                                       | <b>\$ 36,596</b> | <b>\$ 22,079</b> | <b>\$ 31,540</b>     |
| Loans past due 90 days or more  | \$ 6,198         | \$ 7,421         | \$ 5,998             |
| Restructured loans accruing   | 2,485            |                  | 3,089                |
| Allowance for Loan Losses   | 72,652           | 72,442           | 72,017               |
| <b>Ratios</b>   |                  |                  |                      |
| Nonperforming loans as a percent of loans                               | 0.58%            | 0.33%            | 0.52%                |
| Nonperforming assets as a percent of loans plus other real estate owned | 0.69             | 0.47             | 0.64                 |
| Nonperforming assets as a percent of total assets                       | 0.28             | 0.17             | 0.23                 |
| Loans past due 90 days or more as a percent of loans                    | 0.12             | 0.16             | 0.12                 |
| Allowance for loan losses as a percent of loans                         | 1.37             | 1.53             | 1.45                 |
| Allowance for loan losses as a multiple of nonperforming loans          | 2.37x            | 4.71x            | 2.82x                |

**Liquidity Risk**

Liquidity represents the Company's ability to meet financial commitments through the maturity and sale of existing assets or availability of additional funds. The most important factor in the preservation of liquidity is maintaining public confidence that facilitates the retention and growth of a large, stable supply of core deposits and wholesale funds. Ultimately, public confidence is generated through profitable operations, sound credit quality and a strong capital position. The primary source of liquidity for the Company is regularly scheduled payments and maturity of assets, which include \$6.5 billion of high-quality securities available for sale. Investment securities with a market value of \$4.4 billion at June 30, 2012 were pledged to secure U.S. Government deposits, other public deposits, certain trust deposits, and other potential borrowings as required by law. The liquidity of the Company and its affiliate banks is also enhanced by its activity in the federal funds market and by its core deposits. Neither the Company nor its subsidiaries are active in the debt market. The traditional funding source for the Company's subsidiary banks has been core deposits. Based upon regular contact with investment banking firms, management believes it can raise debt or equity capital on favorable terms, should the need arise.

The Company also has other commercial commitments that may impact liquidity. These commitments include unused commitments to extend credit, standby letters of credit and financial guarantees, and commercial letters of credit. The total amount of these commercial commitments at June 30, 2012 was \$4.7 billion. Since many of these commitments expire without being drawn upon, the total amount of these commercial commitments does not necessarily represent the future cash requirements of the Company.





The Company's cash requirements consist primarily of dividends to shareholders, debt service and treasury stock purchases. Management fees and dividends received from subsidiary banks traditionally have been sufficient to satisfy these requirements and are expected to be sufficient in the future. The Company's subsidiary banks are subject to various rules regarding payment of dividends to the Company. For the most part, all banks can pay dividends at least equal to their current year's earnings without seeking prior regulatory approval. From time to time, approvals have been requested to allow a subsidiary bank to pay a dividend in excess of its current earnings.

### **Operational Risk**

Operational risk generally refers to the risk of loss resulting from the Company's operations, including those operations performed for the Company by third parties. This would include but is not limited to the risk of fraud by employees or persons outside the Company, the execution of unauthorized transactions by employees or others, errors relating to transaction processing, breaches of the internal control system and compliance requirements, and unplanned interruptions in service. This risk of loss also includes the potential legal or regulatory actions that could arise as a result of an operational deficiency, or as a result of noncompliance with applicable regulatory standards. Included in the legal and regulatory issues with which the Company must comply are a number of imposed rules resulting from the enactment of the Sarbanes-Oxley Act of 2002.

The Company operates in many markets and places reliance on the ability of its employees and systems to properly process a high number of transactions. In the event of a breakdown in the internal control systems, improper operation of systems or improper employee actions, the Company could suffer financial loss, face regulatory action and suffer damage to its reputation. In order to address this risk, management maintains a system of internal controls with the objective of providing proper transaction authorization and execution, safeguarding of assets from misuse or theft, and ensuring the reliability of financial and other data.

The Company maintains systems of controls that provide management with timely and accurate information about the Company's operations. These systems have been designed to manage operational risk at appropriate levels given the Company's financial strength, the environment in which it operates, and considering factors such as competition and regulation. The Company has also established procedures that are designed to ensure that policies relating to conduct, ethics and business practices are followed on a uniform basis. In certain cases, the Company has experienced losses from operational risk. Such losses have included the effects of operational errors that the Company has discovered and included as expense in the statement of income. While there can be no assurance that the Company will not suffer such losses in the future, management continually monitors and works to improve its internal controls, systems and corporate-wide processes and procedures.

## **ITEM 4. CONTROLS AND PROCEDURES**

The Sarbanes-Oxley Act of 2002 requires Chief Executive Officers and Chief Financial Officers to make certain certifications with respect to this report and to the Company's disclosure controls and procedures and internal control over financial reporting. The Company has a Code of Ethics that expresses the values that drive employee behavior and maintains the Company's commitment to the highest standards of ethics.

### **Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's Disclosure Controls and Procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by the report, the Company's disclosure controls and procedures are effective for ensuring the following criteria for the information the Company is required to report in its periodic SEC filings. SEC filings are recorded, processed, summarized, and reported within the time period required and that information required to be disclosed by the Company is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

**Change in Internal Control Over Financial Reporting**

There has been no change in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

In the normal course of business, the Company and its subsidiaries are named defendants in various lawsuits and counter-claims. In the opinion of management, after consultation with legal counsel, none of these lawsuits are expected to have a material effect on the financial position, results of operations, or cash flows of the Company.

**ITEM 1A. RISK FACTORS**

There were no material changes to the risk factors as previously disclosed in response to Item 1A to Part 1 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The table below sets forth the information with respect to purchases made by or on behalf of the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the three months ended June 30, 2012.

**ISSUER PURCHASE OF EQUITY SECURITIES**

| Period                  | (a)<br>Total Number<br>of Shares<br>(or<br>Units)<br>Purchased | (b)<br>Average<br>Price Paid<br>per<br>Share<br>(or Unit) | (c)<br>Total Number<br>of<br>Shares (or Units)<br>Purchased as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | (d)<br>Maximum Number (or<br>Approximate<br>Dollar<br>Value) of Shares<br>(or<br>Units) that May Yet Be<br>Purchased Under<br>the<br>Plans or Programs |
|-------------------------|--|---|---|--|
| April 1-April 25, 2012  | 23,312   | \$ 43.99  | 23,312  | 1,714,649  |
| April 26-April 30, 2012 | 15,294   | 48.07   | 15,294  | 1,984,706  |
| May 1-May 31, 2012      | 13,947   | 47.72   | 13,947  | 1,970,759  |
| June 1-June 30, 2012    | 3,936  | 48.83   | 3,936   | 1,966,823  |
| <b>Total</b>            | <b>56,489</b>  | <b>\$ 46.35</b>   | <b>56,489</b>   |  |

On April 26, 2011, the Company announced a plan to repurchase up to two million shares of common stock. This plan terminated on April 25, 2012. The Company has not made any repurchases other than through this plan. All open market share purchases under the share repurchase plan are intended to be within the scope of Rule 10b-18 promulgated under the Exchange Act. Rule 10b-18 provides a safe harbor for purchases in a given day if the Company satisfies the manner, timing and volume conditions of the rule when purchasing its own common shares. On April 24, 2012 the Company announced a plan to repurchase up to two million shares of common stock. This plan will terminate on April 23, 2013.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

a) The following exhibits are filed herewith:

- i. 3.1 Articles of Incorporation restated as of April 25, 2006. Amended Article III was filed with the Missouri Secretary of State on May 18, 2006 and incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 and filed with the Commission on May 9, 2006.
- ii. 3.2 Bylaws, amended and restated as of July 26, 2011 incorporated by reference to Exhibit 3 (ii).2 to the Company's Current Report on Form 8-K and filed with the Commission on July 27, 2011.
- iii. 4 Description of the Registrant's common stock in Amendment No. 1 on Form 8, incorporated by reference to its General Form for Registration of Securities on Form 10 dated March 5, 1993.
- iv. 31.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act.
- v. 31.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act.
- vi. 32.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act.
- vii. 32.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act.
- viii. 101.INS\* XBRL Instance
- ix. 101.SCH\* XBRL Taxonomy Extension Schema
- x. 101.CAL\* XBRL Taxonomy Extension Calculation
- xi. 101.DEF\* XBRL Taxonomy Extension Definition
- xii. 101.LAB\* XBRL Taxonomy Extension Labels
- xiii. 101.PRE\* XBRL Taxonomy Extension Presentation

\* XBRL information will be considered to be furnished, not filed, for the first two years of a company's submission of XBRL information.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**UMB FINANCIAL CORPORATION**

/s/ Brian J. Walker  
Brian J. Walker  
Senior Vice President, Corporate Controller

(Authorized Officer and Chief Accounting Officer)

Date: August 2, 2012